

# The auditing of the accounts in the United States

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to its first legal  
regulation in 1896

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# The auditing of the accounts in the United States, from its origin to its first legal regulation in 1896

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# Table of contents

Foreword by the President of The Instituto de Contabilidad y Auditoría de Cuentas (ICAC)	11
Foreword by leaders of Accounting Professional Organizations	14
Acknowledgments	17
<b>1. Author's Note</b>	<b>19</b>
<b>2. The social and economic transformation of the United States of America and the role of <i>public accountants</i> in the last third of the 19th Century</b>	<b>21</b>
<b>1. Introduction</b>	<b>21</b>
<b>2. A precedent: The Auditing of the accounts in Scotland, England, and Wales</b>	<b>22</b>
2.1. The Auditing of the accounts in Scotland	23
2.2. The Auditing of the accounts in England and Wales	26
<b>3. The early days of the auditing of the accounts in the United States of America</b>	<b>34</b>
<b>3. Creation of the <i>Institute of Accounts</i> in 1882, in New York City</b>	<b>47</b>
<b>4. Creation of the <i>American Association of Public Accountants (AAPA)</i> in 1886, in New York City</b>	<b>51</b>
<b>5. Creation in 1892 of <i>The New York School of Accounts</i> within the State University of New York</b>	<b>59</b>
<b>1. First attempt</b>	<b>59</b>
<b>2. Second attempt</b>	<b>60</b>
<b>6. Enactment of a law in the State of New York in 1896 recognizing and regulating the profession of <i>Certified Public Accountant (CPA)</i></b>	<b>67</b>
<b>1. First attempt</b>	<b>67</b>
<b>2. Second attempt</b>	<b>71</b>
<b>7. After the enactment of the 1896 law in the State of New York</b>	<b>75</b>
<b>1. Appointment of the Board of Examiners</b>	<b>75</b>
<b>2. Call and results of the first examination</b>	<b>76</b>
<b>8. Methodology of the auditing of the accounts in the early days</b>	<b>81</b>
<b>1. Introduction</b>	<b>81</b>
<b>2. The accounting records of the time</b>	<b>85</b>

3.	Audit engagements of the time	86
4.	How auditors were viewed	89
5.	Audit engagements in other cities and towns	89
9.	The first sole practitioners and the creation of <i>public accounting</i> firms up to 1896	91
1.	Sole practitioners as <i>public accountants</i>	91
2.	Distinguished sole practitioners	96
-	Frank Broaker. Champion of the <i>public accountancy</i> profession	96
-	Joseph Hardcastle. Teacher and academic	97
-	Charles Waldo Haskins. A very brilliant manager	98
-	Charles Ezra Sprague. A lover of accounting	101
-	James Yalden. An excellent <i>public accountant</i>	104
3.	<i>Public Accounting</i> Firms	107
4.	Distinguished <i>Public Accounting</i> Firms	111
-	Barrow, Wade, Guthrie & Co.	111
-	Deloitte, Dever, Griffiths & Co.	113
-	Price, Waterhouse & Co.	118
-	Stuart & Young	125
-	Haskins & Sells	130
<b>Annex I</b>	Main members of the Council of the American Association of Public Accountants (AAPA), from its birth until December 31, 1896	133
<b>Annex II</b>	Royal Charter of the 11th May 1880	135
<b>Annex III</b>	Act to regulate the profession of <i>Public Accountant</i> in the State of New York	139
<b>Annex IV</b>	First CPA examination given in the United States	141
<b>Annex V</b>	Relevant historical events in the United States of America in the period under analysis	147
	Bibliography	155



# Index of tables and charts

<b>Chart 1.</b>	First British Associations of Chartered Accountants in Britain	26
<b>Chart 2.</b>	Relevant articles on the audit regime of the Companies Act of 1856	27
<b>Chart 3.</b>	Royal Charter of May 11, 1880, creating The Institute of Chartered Accountants in England and Wales	30
<b>Chart 4.</b>	Brewing companies acquired by British capital in the years 1888 to 1890, indicating the date of registration in the London Stock Exchange	38
<b>Chart 5.</b>	Accounting-related Associations Formed in the United States of America between 1874 and 1889	47
<b>Chart 6.</b>	Founders of the American Association of Public Accountants (AAPA) at the meeting of December 22, 1886	54
<b>Chart 7.</b>	First Council of the American Association of Public Accountants (AAPA), elected at the annual meeting of January 17, 1887 General Meeting	55
<b>Chart 8.</b>	Membership of the American Association of Public Accountants (AAPA) from 1887 to 1897	56
<b>Chart 9.</b>	Certificate of incorporation of the American Association of Public Accountants (AAPA), dated August 20, 1887	56
<b>Chart 10.</b>	Provisional charter granted for the establishment of the New York School of Accounts in the year 1892	63
<b>Chart 11.</b>	Act to Regulate the profession of <i>public accountant</i> in the State of New York	72
<b>Chart 12.</b>	First group of certificates awarded by <i>Certified Public Accountants</i> (CPA) in the State of New York, applying the waiver provision	78
<b>Chart 13.</b>	Sole practitioners as <i>public accountants</i> up to the year 1896	92
<b>Chart 14.</b>	<i>Public Accounting Firms</i> up to the year 1896	107
<b>Chart 15.</b>	Evolution of the firm Deloitte	116
<b>Chart 16.</b>	Audit certificate of the balance sheet of St. Louis Breweries Ltd.	122
<b>Chart 17.</b>	Evolution of the firm Price, Waterhouse & Co.	124

<b>Chart 18.</b>	Evolution of the firm Arthur Young & Co. _____	129
<b>Table 1.</b>	Number of Public Accountants Listed in City Directories of New York, Chicago and Philadelphia 1870-1884 _____	36
<b>Table 2.</b>	Trusts and mergers 1860 - 1919 _____	40
<b>Table 3.</b>	Some Early Industrial Trusts _____	43

# Foreword by the President of The Instituto de Contabilidad y Auditoría de Cuentas (ICAC)

Accounting is as old as mankind itself, and the importance of controlling the assets owned led to accounting appearing even before writing itself, as archaeological research shows that the ancient inhabitants of Mesopotamia used clay balls as counting instruments. It is therefore not surprising that the earliest known written documents, produced in the fourth millennium B.C., contained only numbers and counting texts.

Likewise, the reliability of these records required, in one way or another, the establishment, also from ancient times, of mechanisms designed to ensure their reliability, i.e., mechanisms that can be considered as precedents of auditing activity. The development of commerce gave definitive impetus to the need for independent reviews that would provide assurance of business records, and the recognition of auditing as an independent activity in the United Kingdom can be dated back to the second half of the 19th century.

From that time onwards, the auditing profession has grown steadily, subsequently spreading to the United States and the rest of Europe. However, despite the countless changes that have taken place in the exercise of the activity, the objective remains the same, i.e., to ensure the reliability of financial information.

It is precisely the importance of the reliability of corporate information for third parties affected by companies that has driven the regulatory development of the activity, establishing a framework that guarantees compliance with the requirements for the correct execution of engagements, including the public supervision of those who carry out the auditing activity.

In the case of our country, the beginning of the process of modernization of the auditing activity took place through Law 19/1988, which configured the auditing of accounts as an activity of public interest that provided a service to the audited company, but also to all those who maintain relations with it. And this public interest also entailed the need to establish a system of public supervision through the Institute of Accounting and Auditing of Account.

The original text of the Audit Law has been modified over time in order to achieve greater precision and improve its practical application, so that the current regulatory framework is made up of Law 20/2015 on Account Auditing and Royal Decree 2/2021 approving the Regulations for its development.

In practice, the recent evolution of the auditing activity has had to face increasing regulatory demands that are linked to the greater social demands for control of all aspects related to corporate information. These demands have resulted in greater responsibility for auditors, in addition to compliance with strict technical knowledge and

training requirements, as well as specific requirements of an organizational nature and the essential independent public supervision of the auditors themselves.

The understanding of the demands faced by auditors requires an adequate knowledge of auditing and its practice, and this is precisely what the work of the authors Emilio Gironella Masgrau and María del Carmen Barcons Vilardell provides, as it reviews the origins of the profession and its development in the largest economic power of the last century. The book deals in a complete way with the facts, factors and the most decisive historical developments in the evolution of auditing in the United States of America from its known beginnings to the first legal regulation in the State of New York in 1896. Moreover, the narration is done in a clear and chronological manner, which allows to move forward in time together with the most important historical events that occurred in this country.

To mention just a few of the events described above, it is worth mentioning the leading role played by the Council of the American Association of Public Accountants (AAPA), which determined the need for an auditor to have the highest academic training in order to practice his profession (today all public accountants have a university education). This aspect, which is now basic and which makes the auditor a very prominent and prestigious profession, was not at all easy to implement in the United States, and it took a long time before it finally became compulsory to have a university degree in order to be able to apply for the professional certificate of Certified Public Accountants (CPA), auditor of accounts in this country.

The present work is the first in Spain to study these aspects so explicitly. All the facts expressed in it are very well documented and the reading is intoxicating. From the text it can be seen that it is in Scotland where the true cradle of account auditing was established in 1853 when The Society of Accountants in Edinburgh was created. In particular, it is fascinating how the authors narrate the arrival of many British Chartered Accountants, especially English and Scottish, in 1888, 1889 and 1890 to audit American brewing companies acquired by various British investors and located in different states, being in fact, the "serious" beginning of account auditing in the United States of America.

It is striking that the most important British and American public accounting firms were created in the 1880s (among them: Veysey & Veysey; Yalden, Brooks & Donnelly; Barrow, Wade, Guthrie & Co.-which in 1950 merged with Peat, Marwick, Mitchell & Co.-; Heins & Whelen), and 1890 (Deloitte, Dever, Griffiths & Co.; Price, Waterhouse & Co. Francis & Co. Francis & Sterrett; Broaker & Chapman; Broads Patterson & Co.; Stuart & Young -then Arthur Young-, and Haskins & Sells), and some of them became many years later the multinational firms that are currently the main players in the world audit market.

The book also includes a series of annexes that contain documentation that is extremely interesting for many and curious for others. In particular, Annex IV contains the content of the questions asked in the first examination to obtain the professional certificate of Certified Public Accountant (CPA) held in the State of New York on December 15 and 16, 1896. Or Annex V, which includes the historical facts considered most relevant by the authors in the United States of America in the period analyzed, providing an insight into the environment of life in those times.

For all these reasons, I would like to express my deepest gratitude to the authors, Mr. Emilio Gironella Masgrau and Ms. María del Carmen Barcons Vilardell, for having de-

livered the work to the Instituto de Contabilidad y Auditoría de Cuentas (ICAC) for its dissemination and publication with the aim of giving the opportunity to know its contents not only to account auditors in Spain but also to the rest of Europe. I would also like to offer my most sincere congratulations and admiration for the work of narration and consolidation of all the texts and all the work that in one way or another has been carried out so that this text finally sees the light of day and can be enjoyed by all.

In Madrid, March 30, 2023  
**Santiago Durán Domínguez**  
President of the Institute of Accounting and Auditing (ICAC)

# Foreword by leaders of Accounting Professional Organizations

It is a personal satisfaction for us to present the book that readers have in their hands. It is for two reasons: because of the friendship we have with its authors, and because of its content. We are also aware that it is a responsibility, because it implies getting the task of this presentation right.

The two authors of the book -Emilio Gironella Masgrau (Emili) and María del Carmen Barcons Vilardell (Carme)- are well-known people in the world of professional publications, and a good proof of this is that, for example, their last two published articles "El ebitda ¿indicador útil o inútil?" (2017-2018) and "El cash flow o flujos de efectivo: confusión en su concepto, verdades y mentiras" (2019-2020) have had a great impact, because of their choice of topical subject and their high quality. However, we will identify them very succinctly so that those readers who do not know them know their most relevant data.

Emili Gironella has a degree from the Professional School of Commerce of Sabadell, has a degree in economics and business from the University of Barcelona (UB), and a PhD in economics and business from the same university. He has worked as an account auditor for 47 years (1967-2014), being probably one of the people who has worked more years in Spain. Auditor of accounts, Chartered Accountant, president of the Territorial Grouping in Catalonia of the Institute of Chartered Accountants of Spain -currently Col·legi de Censors Jurats de Comptes de Catalunya- in 1980-1982. Subsequently, he was an Audit Economist and was involved for many years in the committee on auditing standards and procedures and also in the training committee of the Register of Audit Economists (REA) and also in the activities of the Col·legi d'Economistes de Catalunya (CEC), a corporation that named him Economist of the Year (professional office version) in 2007. The Col·legi de Censors Jurats de Comptes de Catalunya named him Distinguished Auditor of the Year 2015. He was an associate professor at the Universitat Pompeu Fabra (UPF) for 17 years, where he taught the subjects of auditing and financial statement analysis. In 2014 he became a full member of the Royal European Academy of Doctors-Barcelona 1914 (RAED).

Carme Barcons has a degree in business studies from the University of Girona, a degree in economics and business studies from the Autonomous University of Barcelona (UAB), and a PhD in economics and business studies from the University of Barcelona (UB). An account auditor, she decided to devote herself to university teaching in the field of accounting, having practiced it in several Catalan universities, until she finally settled at the University of Barcelona (UB), where she is a full professor of accounting. Her teaching at this university has covered the subjects of financial accounting and cost accounting, having been the coordinator of the master's degree in accounting and taxation at the University of Barcelona (UB).

Regarding the contents of the book "The auditing of the accounts in the United States of America, from its origin to its first legal regulation in 1896", it is a historical book about the auditing profession in the United States of America. It is well known that most books and journal articles on this discipline deal with technical or regulatory issues, namely: auditing

procedures, reporting, auditing standards, accounting principles, financial or non-financial reporting, sustainability, other work performed by auditors, etc.

Consequently, a book of a historical nature is unique because the vast majority of auditors focus on the exercise of their work and have never delved into the history of their profession, which is classified as an activity in Spain, and this gives the book an additional plus, because reading it makes it easier to learn countless facts and, probably, will even change some opinions, knowing dates, countries and historical developments that are explained in detail in it. Let us mention the most relevant facts described in the book:

1. Many auditors think that the United States of America was the country where auditing began, and they do so because they understand that due to its role as the world's leading economic and financial power, it seems logical to believe that it was there where, out of necessity, this profession began. The book explains very clearly that this is not so, Scotland being the cradle of auditing, followed years later by England and Wales, and that it was fundamentally the Scots and the English who "exported" auditing to the United States of America, by sending their chartered accountants to that country to audit the balance sheet - in its beginnings - of the British investments of their clients in that country.
2. As the authors explain in detail, the development and evolution of account auditing in the United States of America was a very slow process. This is evidenced by the fact that there is no mention of accounting principles or auditing standards, two subjects that are very much in vogue at present. These two topics did not exist in the period analyzed in this book, which covers only up to the year 1896, and it should be noted that it took many more years for them to be brought to the table, because this book deals with the beginnings of auditing in the United States of America.
3. The book explains and sets out in detail the subjects that its authors considered to be the most relevant. Let us mention in this regard: (a) The creation of the Institute of Accountants in New York City in 1882, as a private association that brought together people interested in accounting, requiring to become a member the need to pass an examination in the two higher categories, in order to demonstrate their knowledge of this discipline; (b) The constitution in New York City in 1886 of the American Association of Public Accountants (AAPA) -currently the American Institute of Certified Public Accountants (AICPA)- as a professional organization that sought to bring together public accountants in that country; (c) The creation of the New York School of Accounts within the State University of New York in 1892, since the Council of the American Association of Public Accountants (AAPA) considered that future public accountants should have a university education, although, unfortunately, due to the serious economic crisis of 1893, this university school could not be continued; (d) The enactment of a law in New York State in 1896, which recognized and regulated the profession of Certified Public Accountant (CPA); (e) The audit methodology applied in the early days by public accountants and, finally, (f) The first individual practitioners and the creation of public accountants' societies until 1896.

We consider it a wise move and an act of justice to identify those individual practitioners as public accountants who, with their enthusiasm and vision of the future, made possible the creation of the profession of certified public accountant (CPA) -auditor of accounts in Spain-, in the United States of America, and the portrayal that the authors of the book make of five of them.

We also consider it very appropriate to cite the names of those auditing companies created up to 1896, a fact that allows us to know, among others, some names that persist today as an evolution of the denomination of some firms. Evolution of the firm Deloitte, Table 16. Evolution of the firm Price, Waterhouse & Co. and Table 18. Evolution of the firm Arthur Young & Co., information that will obviously be of interest to the members of these three multinational auditing firms and to many other interested persons.

Finally, we were very pleased and interested to learn about the content of the questions asked in the first examination for the certificate of certified public accountant (CPA) by the State of New York, held on December 15 and 16, 1896, in Appendix IV, and we consider the content of Appendix V to be of great interest. Relevant historical facts in the United States of America in the period analyzed, for the wealth of information it contains.

For all these reasons, we believe that this book is of great value and interest to all Spanish auditors, and we congratulate the Spanish Institute of Accounting and Auditing (ICAC) on the wisdom of its publication, which we fully support.

**Carlos Puig de Travy.**

Dean of the Col·legi d'Economistes de Catalunya.

**Antonio Gómez Valverde.**

President of the Col·legi de Censors Jurats de Comptes de Catalunya.

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President of the Registro de Economistas Auditores.

**Montserrat Casanovas Ramón.**

President of ACCID (Associació Catalana de Comptabilitat i Direcció).

Barcelona and Madrid, November 23, 2022.

 **Col·legi d'Economistes de Catalunya**  
*Al servei dels professionals de l'economia i de l'empresa*

Col·legi de Censors Jurats de Comptes de Catalunya  
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 **AUDITORES**  
INSTITUTO DE CENSORES JURADOS DE CUENTAS DE ESPAÑA

 **economistas**  
Consejo General  
REA auditores

 **ACCID**  
Associació Catalana de Comptabilitat i Direcció



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To all, thank you, thank you very much!



# 1 Author's note

The purpose of this book is to review, examine and interpret the most important facts, factors and historical developments in the evolution of the auditing of accounts in the United States of America, from its known and documented beginnings in the last quarter of the 19th century to the year 1896, when the State of New York was the first to enact a law recognizing and regulating the profession of *certified public accountant* (CPA), equivalent to auditors in Spain.

We decided that the facts, factors and historical developments would be presented chronologically from the first antecedents of the influence of *chartered accountants* -the official name of British *public accountants* or auditors- on the business fabric of the United States of America. The early influence of these auditors brought forward the need for auditing of accounts in U.S society, leading to the creation in 1886 - as had happened previously in Great Britain - of a professional corporation - the American Association of Public Accountants (AAPA) - formed by and for people dedicated to the provision of specialized services to the general public, basically but not exclusively related to accounting in those days, who called themselves *public accountants*.

A very relevant fact in this evolution and development is the importance that the Council of the AAPA gave to ensure that the training of future *public accountants* had a university level, so that the public they served could equate them in training and knowledge to other professions previously created and consolidated, such as doctors, lawyers, engineers, architects, etc., recognized as necessary and fundamental in the society in which we live.

This educational aspect, as we shall see, had a very strong impact on the minds and intentions of the pioneers of this new profession until, finally, after much effort, it was achieved in 1900 with the creation of the New York School of Commerce, Accounts and Finance, currently The Leonard N. Stern School of Business at New York University.

Over time and up to the present day, the practice of the profession of certified public accountant in the U.S. has shown that businessmen, credit institutions, government agencies and the public in general trust the technical-professional opinion that these professionals express in their reports on the form and substance of the financial statements of the companies or entities they audit, providing them with a guarantee of their reasonableness - not of their total certainty, to make this quite clear - and, consequently, they accept it as valid and useful, constituting an indication of the importance of their work and of the responsibility that these professionals assume as actors in their market economy.

However, at the stage we cover in this book, which goes up to the year 1896 specifically -although at some points certain later events are presented so that the reader has an updated view of the subject-, the practice of this activity, qualified as a profession as of 1896 in the USA because it was so defined in the law enacted in that year in the State of New York, was in its infancy and could not contribute much to American society, among other things because it was unknown, as will be seen later on.

The decisive facts, factors and developments that, in our opinion, explain the evolution of the auditing of accounts in the U.S. in the early days of its creation, up to the year 1896, are as follows:

1. The social and economic transformation of the United States of America and the role of the *public accountants* in the last third of the 19th century.
2. The creation of the Institute of Accounts in 1882 in the city of New York.
3. The constitution of the American Association of Public Accountants (AAPA) in 1886 in New York City.
4. The creation of the New York School of Accounts in 1892 within the State University of New York.
5. The enactment of a law in the State of New York in 1896 recognizing and regulating the profession of *Certified Public Accountant* (CPA).
6. After the 1896 law's enactment in the State of New York.
7. Methodology for the performance of audit engagements in the early days.
8. The first sole practitioners and the creation of firms of *public accountants* up to the year 1896.

## 2 The social and economic transformation of the United States of America and the role of *public accountants* in the last third of the 19th century

### 1 Introduction

As a historical fact of vital importance, it should be remembered that from April 1861 to April 1865 the American Civil War took place, a direct consequence of the historical controversy over slavery. After the war a period of reconstruction began, ending in 1877.

Once the period of reconstruction was over, in the last quarter of the 19th century a profound social and economic transformation took place in the U.S.A as a result of:

- a. A notable increase in the wealth generated due to rapid industrialization, which implied that many citizens abandoned agricultural areas and small towns and moved to urban industrial centers.
- b. A very significant increase in population due to high immigration - the population between 1860 and 1890 doubled from 31 to 62 million people - especially from European countries.
- c. The development of railroads as a means of transporting people and goods at a much lower cost than the previous wagon transport -in 1869, the East was connected to the American West with the completion of the transcontinental railroad line- and with unparalleled speed.
- d. The appearance of new inventions such as the lightbulb -patented by Thomas Edison in the 1880s- and the telephone in 1876.
- e. The creation of *trusts* or conglomerates of important companies, with all their consequences.
- f. The emergence of financial capitalism, practically non-existent up to that time or, in its case, with an insignificant incidence. In 1893 there were already 1,250,000 stockholders in the U.S.A., out of a population of 62 million people.

These changes obviously had a very significant impact on American society, leading to the creation of auditing of accounts in the United States of America during this period as a result of the existing demand in a society in full transformation, where the need for it began to be

felt in the business world, although its consolidation and progress in a global and well-known manner was a very slow, cumbersome and problem-filled process.

However, in spite of the above, the auditing of accounts took some time to be implemented, but *public accountants* already existed, performing a very varied range of work, especially related to accounting, as is shown in the following quote.

“Inasmuch as statutory audits were not present in America, and British auditors were available to do much of the work, the accounting profession grew slowly in this country in the nineteenth century until near the turn of the century. A study of occupational directories shows that in New York City, 31 local practitioners were listed as public accountants in 1880, 66 in 1890, and 183 in 1899. In the city of Chicago only 3 were listed in 1880, 24 in 1890, and 71 in 1899. Display advertisements published in the same directories give some idea of the type of service offered to the public:

Complicated, disputed and confused accounts, also accounts of executors, trustees and estates in assignment investigated and stated. Books opened and closed. Suspected accounts confidently examined. Partnership settlements made (1881).

Books opened and closed, commercial branches taught. Highly recommended by banks, business houses. Proving arithmetic, detecting errors in trial balance, computing interest and discount, averaging accounts (1886).

Railroad, industrial, banking, commercial, corporation, syndicate, and general accounting. Books designed, opened, kept, examined, adjusted, audited and balanced (Moyer, C. A. 1951, p. 3).

Therefore, taking into account the type and nature of the work offered in those advertisements by the people who offered them and identified themselves as *public accountants*, it should not be understood that they were auditors, since the professional certificate that qualifies them as such had not yet been created in the U.S. Consequently, in those days, public accountants should be understood as those persons expert in accounting and similar work who offered their services to the general public, not account auditors in the sense that this expression has today.

Before explaining in detail the origins and development of the auditing profession in the USA, which is the basic purpose of this book, we believe it appropriate to explain, obviously in synthetic and necessarily schematic terms, the development and situation of this profession in Great Britain, the country where the auditing of accounts was born in the modern age and subsequently "exported" to the USA.

## 2 A precedent: The auditing of the accounts in Scotland, England, and Wales

### Introduction

In the early days, both in Scotland and England and Wales, the work of the so-called *accountants* (*public accountants in the USA*) was not recognized as a profession but as a trade. This was logical, given that in Scotland the practice of accountancy was generally related to work attributed to lawyers and, in England and Wales, the people who were dedicated to it also performed other jobs, which is why there was confusion as to their role and their functions were not properly identified.

Due to the scandals in companies run by people who only sought to obtain short-term profits and dedicated themselves to speculation, deceiving and manipulating everything in their path, and also due to other factors, it must be said, both the accountants in Scotland and in England and Wales had, through time, fertile ground for their legal recognition, for there came a time when their work was sufficiently recurrent and necessary for the people who were dedicated to it to exercise it exclusively and for it to be legally recognized, which is what happened. A new profession was born.

It is not at all strange that, under these circumstances, the first British professional associations of *accountants* were created in the 19th century and, since they were legalized by *Royal Charter*, they were called "Chartered Accountants". See Chart 1.

## 2.1 The auditing of accounts in Scotland

On January 17, 1853, Alexander Weir Robertson, a Scottish accountant residing in Edinburgh, the capital of Scotland, sent a letter to 14 of his colleagues in that city asking them if they were interested in forming a professional association of accountants to defend their interests in the city of Edinburgh and, if so, inviting them to attend a meeting in his office on January 20, 1853, at an agreed time, to discuss the matter further. Eight of his colleagues were interested and attended the meeting, at which there was full agreement on the intended purpose. We report that most of the data reported here have been obtained from the book "A History of Accounting and Accountants" by Richard Brown.

At a subsequent meeting, held on January 22, 1853, a draft of the by-laws of the future professional association was discussed, and it was agreed to hold a further meeting of all known accountants in Edinburgh on January 31, 1853. At that meeting, with 47 accountants in attendance, it was agreed to formally create such a professional association, under the name "The Institute of Accountants in Edinburgh".

A further meeting was held on February 4, 1853, at which, among other items on the agenda, the members of the Council of the new association were elected. James Brown (1786-1864)<sup>1</sup> was elected president and Alexander Weir Robertson secretary.

At the first annual meeting of the Institute of Accountants in Edinburgh, held on February 1, 1854, it was decided to apply to the British government for legal recognition through a *Royal Charter*, a petition which was signed by 61 *accountants* practicing in the city of Edinburgh.<sup>2</sup>

This petition was accepted by the British government and, by Royal Warrant, "The Society of Accountants in Edinburgh" was legally constituted by Her Majesty's Court at St. James', on October 23, 1854, in the eighteenth year of Her Majesty's reign, according to the text of the said document. The Royal Charter was signed by Lord Palmerston on behalf of Queen Victoria (Royal Charter of 1854 Incorporating the Society of Accountants in Edinburgh).

Readers may have already noticed that the name of the professional association was changed from Institute to Society. It was the first time in the world that a professional association of *Chartered Accountants* (Contador Público, as it is known in Central and South America, Certified Public Accountant (CPA) in the USA or Auditor de Cuentas in Spain) was formed. Therefore, Scotland has the honor of having been the cradle of the constitution of the first professional association of auditors duly legalized in the world.

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1 His son, Richard Brown, who was president of the Society of Accountants in Edinburgh in the years 1916-18, editor and partly author of the book "A History of Accounting and Accountants", the first edition of which dates from 1905, opened his firm as a chartered accountant in 1885. In 1893 it became a partnership under the name of Richard Brown & Co. and, after further partnerships, finally merged in 1970 with Arthur Young, McClelland, Moores & Co, now Ernst & Young (EY).

2 In those days the incorporation of a company or entity could be done through two different ways, namely:

1º. An authorization from the British Parliament.

2º A Royal Charter.

From the reading of this Royal Charter, it is clear that it does not appear anywhere that the work of the Scottish *accountants* of those times had anything to do with auditing of accounts as it is understood today.

In fact, the Royal Charter defines and identifies the work performed by Scottish *accountants* in those days, which focused on accounting matters –probably financial investigations–, in the administration of estates, insolvencies, liquidation of companies, bankruptcies, and acting as experts in the courts of justice. Audit engagements performance simply did not exist, although accounting reviews were carried out –in England and Wales were called *financial investigations*– to detect errors, irregularities, and potential frauds. They were not audits in the sense and nature in which we understand them today, these works being few in number at the time of the constitution of the association.

The reason why audit engagements did not exist was obvious: the need for it had not yet arisen in Scottish society and, therefore, its legislation on this subject was non-existent, although it must also be said that the field was beginning to be fertilized by the enactment of various mercantile laws which, with time and the profound changes they introduced into the business world, stimulated its development, as we shall see later on.

The above is not at all strange, since the same situation occurred in England and Wales, later also in the United States of America and, many years later, also in Spain. In our country, the first professional organization of auditors was the Instituto de Censores Jurados de Cuentas de España, created in 1945. In Spain, and we have experienced it personally, it took years for the auditing of accounts to be implemented after that date and many more to be legalized, so first it was the constitution of a professional organization and, later, came the specific work that gave rise to its creation, the audits.

In the early days, and this lasted a few years, we, the Spanish *chartered accountants*, had to learn to carry out a job that did not exist until then –auditing– – the audits of their subsidiary companies located in our country, American, Dutch, Swiss and French auditing companies based in Spain, which carried out – by legal obligation in their respective countries – audits of the financial statements of their subsidiaries located in our country and, for this purpose, hired the services of many Spaniards to carry them out. This is the same thing that also happened in the United States of America with the British *chartered accountants*, as we will see later on.

The same situation as in Edinburgh was repeated in the city of Glasgow, the most important city in Scotland in number of inhabitants. A group of *accountants* in that city decided to create a professional association that would bring together all the *accountants* they wanted, which was achieved on November 14, 1853, calling it "The Institute of Accountants in Glasgow." James McClelland (1799-1879)<sup>3</sup> was elected the first president of the association. On July 6, 1854, 49 *accountants* of this city requested a Royal Charter for their legalization, being granted on March 15, 1855, with the name of "The Institute of Accountants and Actuaries in Glasgow".

Likewise, Aberdeen did not want to be left behind and after constituting a professional association entitled "The Society of Accountants in Aberdeen" at the end of 1866, also obtained a Royal Charter on March 18, 1867, thus making its legalization official.

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3 James McClelland, opened his firm in 1824. In 1872, he formed a partnership with other chartered accountants to form McClelland, MacKinnon & Blyth and, after other partnerships, in 1968, Arthur Young, McClelland, Moores & Co., now Ernst & Young (EY), was created as a result of other mergers.



After achieving their legalization in the years 1854, 1855 and 1867, the three Scottish professional associations described above jointly established strict rules to rigorously regulate the admission of new members to the same, in order to achieve adequate and uniform training for such candidates. In those days, admission required any candidate to work in the offices of a *chartered accountant* for a period of five years (three years for those with a university degree) and to pass three examinations covering a host of subjects related to the work they were required to master.

In 1892, the three associations mentioned above decided to create a joint Board of Examiners to unify the standards of the entrance examinations for new members. It was undoubtedly a good idea, a fact that shows the seriousness and rigorousness with which the most important issues related to this profession were decided. The same happened many years later in the United States of America.

On May 31, 1951, King George VI approved a Supplementary Royal Charter by which the three previous Scottish associations merged into one under the name of "The Institute of Chartered Accountants of Scotland" (ICAS for short). It is a very important fact that this legislation and British jurisprudence allows them to add the initials "CA" (Chartered Accountant) after their name, as a sign of identity of its bearer.

“The profession of accountant did not attain a position of importance in England or in Ireland at so early a period as in Scotland, which was probably due in great measure to the laws of Scotland affecting the estates of bankruptcy, pupils, and other incapacitated persons, and the practice of the Courts of Justice, being so different in character”. (Brown, Richard. 1968, p. 232).

The first woman to join a Scottish association of chartered accountants was Isabel Clyne Guthrie, who joined The Institute of Accountants and Actuaries in Glasgow in 1923, and the second was Helen Mitchell Somerville, who did so at The Society of Accountants in Edinburgh in 1925 (Murphy, Mary E. 1955, p. 460).

**CHART 1 First associations of chartered accountants in Britain**

Year of creation	Year of obtention of a Royal Charter	Name
<b>Scotland</b>		
1853	1854	• The Society of Accountants in Edinburgh
1853	1855	• The Institute of Accountants and Actuaries in Glasgow
1866	1867	• The Society of Accountants in Aberdeen
-	1951	• By Royal Charter Supplement dated May 31, 1951, the name of The Society of Accountants in Edinburgh was changed to The Institute of Chartered Accountants of Scotland, and The Institute of Accountants and Actuaries in Glasgow and The Society of Accountants in Aberdeen were absorbed by merger into the new Institute.
<b>England and Wales</b>		
1870	-	• The Incorporated Society of Liverpool Accountants
1870	-	• The Institute of Accountants (London)
1871	-	• The Manchester Institute of Accountants
1873	-	• The Society of Accountants in England
1877	-	• The Sheffield Institute of Accountants
-	1880	• By Royal Charter dated May 11, 1880, the five professional organizations mentioned above were merged into a single professional corporation entitled The Institute of Chartered Accountants in England and Wales, which continues today under the same name.

↑ Source: Richard Brown, *History of Accounting and Accountants*, 208.

**2.2 The auditing of the accounts in England and Wales**

England and Wales experienced great economic growth after 1840 due to a significant increase in the number of companies incorporated as a result of the impetus generated by the industrial revolution and, also, by the new joint stock company laws of 1844, 1845, 1855, and 1862, which allowed, firstly, the creation of joint stock companies by simply registering them in a public register - instead of by Parliament or the Queen - and, secondly, to limit the liability of the shareholders of such companies only to the capital contributed, as their liability had previously been unlimited (An Act for Limiting the Liability of Members of certain Joint Stock Companies of 1855).

In addition, other laws enacted by the British government also increased the work of accountants, although not specifically in auditing of accounts, among which we highlight The Bankruptcy Act of 1869, which opened the doors so that accountants could be appointed receivers of bankrupt companies, which was one of their most frequent jobs at that time.

No wonder that Richard Brown, C.A. (Edinburgh), when he was secretary of The Society of Accountants in Edinburgh, wrote in his famous book "A History of Accounting and Accountants" (1905) that "The Companies Acts, beginning in 1862 and ending, for the present, in 1900, have already been referred to as good friends to the accountant, and two ways have

been particularized, auditing and liquidation, in which they bring grist to the mill". (Brown, Richard, 1968, p. 326).

In the 60 years following 1840 the number of companies increased exponentially, implying an increase in the wealth of the country, which represented great changes, both in the business world and in the society of the time.

As a consequence of this fact, the number of *accountants* also increased significantly, but the determining factor that represented a stimulus for its growth was, without a doubt, the enactment of the aforementioned mercantile laws that favored the implementation of auditing, given that, since the law of 1844 (An Act for the Registration, Incorporation and Regulation of the Joint Stock, Incorporation and Regulation of the Joint Stock Companies) to the important law of 1862 (The Companies Act of 1862), all required that the balance sheet and accounts of these corporations be audited, first, every half year and, later, annually by "auditors" (shareholder auditors in Spain according to the terminology of the Spanish Law of July 17, 1951 on the legal regime of corporations). Be careful not to confuse them with auditors!

The aforementioned auditors were basically shareholders of the companies, although they could be assisted in the performance of their work by *accountants*, if they considered it convenient, charged to the company's funds, a fact which, over time, stimulated the participation and development of the latter.

Due to their importance, we believe it is necessary to detail the most relevant articles related to auditing in the Companies Act of 1856, included in the so-called Table B, entitled "Regulations for the Management of the company", in Chart 2.

#### CHART 2. Relevant articles on the audit regime of the Companies Act of 1856

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74. The accounts of the company shall be examined and the correctness of the balance sheet ascertained by one or more auditor or auditors to be elected by the company in general meeting.
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76. Auditors need not be shareholders of the company: no person is eligible as an auditor who is interested otherwise than as a shareholder in any transaction of the company; and no director or other officer of the company is eligible during his continuance in office.
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82. Every auditor shall be supplied with a copy of the balance sheet, and it shall be his duty to examine the same, with the accounts and vouchers relating thereto.
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83. Every auditor shall have a list delivered to him of all the books kept by the company, and he shall at all times have access to the books and accounts of the company. He may, at the expense of the company, employ accountants or other persons to assist him in investigating such accounts, and may in relation to such accounts also examine those of the directors or any other officer of the company.
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84. The auditors shall prepare a report to the shareholders on the balance sheet and accounts, and in each such report shall state whether, in their opinion, the balance sheet is a true and fair balance sheet, including the particulars required by these regulations, and whether it is properly drawn up so as to give a true and fair view of the state of the company's affairs, and if they have requested explanations or information from the directors, whether such explanations or information have been furnished to them by the directors, and whether they have been satisfactory; and such report shall be read, together with the directors' report, at the general meeting.
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↑ Fuente: *Companies Act 1856*.

Focusing for a moment on Spain, the Spanish law of July 17, 1951 on the legal regime for corporations (B.O.E. No. 199, of July 18, 1951) established in Article 108, under Chapter VI. On the balance sheet, textually the following:

"The balance sheet, the profit and loss account, the proposal on the distribution of profits, and the annual report must be submitted to the examination and report of the shareholder auditors, who will propose their approval in writing or formulate the objections they deem appropriate, within a maximum period of one month. In order to carry out this task, the auditors may examine the accounts and all the background information as extensively as possible by themselves or together with technical persons, without either of them being able to disclose the results of their investigations to the other shareholders or third parties in particular. The directors may limit the auditors' right of examination only in cases of exceptional importance when the company's interests are seriously compromised.

The shareholder auditor, who may not belong to the Board of Directors, will be appointed in the number of two proprietary shareholders and two alternates by the General Meeting at which the accounts of the previous year are approved and will not cease in their function until the accounts of the following year are approved. If the vote of the shareholders is not unanimous in the appointment of the auditors, another effective member and his alternate may be appointed by the minority, provided that such minority represents at least one-tenth of the paid-up capital stock. The appointments of the latter auditors, which will be decided by the highest number of votes within the aforementioned minority group, must necessarily be made by members of the Spanish Institute of Chartered Accountants who are not shareholders, who will deliver a copy of their report to the Chairman of the Board of Directors and another to the first signatory of the proposal for election, and if this has not been done in writing, to the largest shareholder of those who voted for the proposal. In the performance of his duties, the shareholder auditor may himself examine the accounts and all documents and background information relating to the accounting facts, but his report, unless expressly stated otherwise by the General Meeting, shall only refer to the accuracy and veracity of the data recorded in the balance sheet and profit and loss account and to the valuation and depreciation criteria followed by the Company during the year."

In our opinion, it was a real shame that 95 years after the enactment of the British Companies Act of 1856, a law was enacted in Spain that stated exactly the same -or similar-, when in Great Britain much had already happened and experience had shown that the audit engagements should be carried out by professional auditors, and not by shareholder accountants (auditors), whose knowledge left much to be desired.

As time went by, many auditors in Great Britain became aware of their little or no knowledge of accounting matters, and so they increasingly requested the collaboration of *accountants - chartered accountants* to be more precise - in their auditing work, causing an increase in the number of the latter and then, as was logical, the organization of professional associations which, as a consequence of this fact, obviously fell like a breath of fresh air.

The earliest of these professional associations in England and Wales was "The Incorporated Society of Liverpool Accountants," formed on January 25, 1870. The second was "The Institute of Accountants in London," created on November 29, 1870. The third was "The Manchester Institute of Accountants" on February 6, 1871. The fourth was "The Society of Accountants in England" on January 11, 1873, and the fifth was "The Sheffield Institute of Accountants" on March 14, 1877.

At a certain moment, suggestions or recommendations were received from several people in the sense that "The Institute of Accountants in London" could also accept practicing members from all the provinces that wished it. These suggestions were accepted, and its name was changed to "The Institute of Accountants." Evidently, because of its importance in the number of members of the five associations mentioned above, the first in England and Wales was The Institute of Accountants. William Turquand was its vice president from 1870-1877 and president from 1877-1880.

After the corresponding debates and the resolution of different controversies and points of view among these five professional associations, finally, they reached an agreement to jointly form a single professional association for England and Wales, and this was done. Immediately after this union, it was decided to legalize it, requesting its legalization by means of a Royal Charter, which was obtained on May 11, 1880, under the name of "The Institute of Chartered Accountants in England and Wales" (ICAEW).

At the date of obtaining the Royal Charter (Chart 3), the five professional associations that formed it and merged into one had a total of 638 members, of which 587 were admitted to the ICAEW.

**CHART 3. Royal Charter of May 11, 1880, creating the Institute of Chartered Accountants in England and Wales**

Victory by the Grace of God

of the United Kingdom of Great Britain and Ireland Queen Defender of the Faith

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**TO ALL THOSE TO WHOM THE PRESENT LETTER MAY BE OF INTEREST**

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**Whereas** A humble petition has been presented to Us by the following Chartered Accountants: William Turquand of Coleman Street, City of London, John Unwin Wing of Prideaux Chambers, Sheffield, Anthony Wigham Chalmers of 5 Fenwick Street, Liverpool, Henry Grosvenor Nicholson of 100 King Street, Manchester, Jarvis William Barber of George Street Chambers of Alliance, Sheffield, and Charles Henry Wade and Edwin Guthrie, both of Marsden Street, Manchester, who state (among other things) as follows:

That the applicant William Turquand is the President of a Society founded in 1870 in London, called The Institute of Accountants, that the applicant John Unwin Wing is the President of a Society founded in 1872 in London, called The Society of Accountants in England, that applicant Anthony Wigham Chalmers is the President of a Society of Accountants established in 1870 in Liverpool, that applicant Henry Grosvenor Nicholson is the President of a Society of Accountants established in 1871 in Manchester, that applicant Jarvis William Barber is the President of a Society of Accountants established in 1877 in Sheffield; and that the applicants Charles Henry Wade and Edwin Guthrie are Chartered Accountants in Manchester.

That the profession of Chartered Accountants in England and Wales has numerous practitioners and their functions are of increasing and great importance in respect of their office in capacities as Liquidators of companies, and as Administrators under decrees and as Receivers in bankruptcies or arrangements with creditors and in various positions of trust in the Courts of Justice, and in the auditing of accounts of public companies and of partnerships and so forth.

That the total number of members of the said societies exceeds 500 and that this number includes virtually all the leading Chartered Accountants in England and Wales.

That the said societies were not formed for profit and that their members, therefore, have no financial purpose or gain, but that the societies aspire to the promotion of the profession of Chartered Accountants as a whole, and the furtherance of its efficiency and usefulness by making the observance of strict standards of conduct a condition of membership, and by setting a high standard of professional education and professional and general knowledge and so forth.

That, in the opinion of the applicants, this would do much to reinforce the purposes for which the said societies have been constituted and, further, would be of public benefit if their members were incorporated in a single body and, in addition, other advantages such as such incorporation would represent a public recognition of the importance of the profession and would tend gradually to elevate its character and thereby secure to the community the existence of a category of persons well qualified in the responsibility and performance of difficult duties which often devolve upon Chartered Accountants.

That the petitioners desire and propose that, if such membership is granted by Royal Charter, the following conditions would be established as qualifications for admission to membership of persons already practicing the profession, either by actual and prolonged experience, or by long service as an employee of a Chartered Accountant, or by the passing of appropriate examinations under the supervision of the Corporation.

That with respect to the admission to membership of persons desiring to enter the profession, the applicants contemplate that subject to future determination by the Council of the Corporation, a strict system of examinations would be established which would include a preliminary examination to be taken before the candidate could become a member and commence work under supervision, an intermediate examination to be taken during the term of his contract and a final examination, and no person would be allowed to sit for the final examination unless he had worked for at least five years or, in the case of a graduate of any of the universities in the United Kingdom, then for a period of at least three years as an employee under the supervision of a Chartered Accountant.

That the examinations should (subject to future determination by the Council of the Corporation) be of such a character as to attest the knowledge of the candidates not only in book-keeping and accounting, but also in the principles of commercial law and in the law and practice of the winding up of companies.

That the petitioners further desire and propose that the Corporation should establish such rules with respect to admission to membership and exclusion from membership as will prevent CPAs from mixing any other business with the performance of their higher duties as CPAs, which would put an end to the questionable practice of sharing profits with persons in other professions in the form of commissions or the like.

Whereas the petitioners further desire that the members of the corporation be authorized to add to their names distinctive letters indicating their membership.

And whereas, by the said petition, the petitioners, on their own behalf and on behalf of other members of the said societies and of the profession generally, most humbly pray that We may be graciously pleased to grant the Royal Charter for the creation under the incorporated name of the Institute of Chartered Accountants in England and Wales or under such other name as may appear to Us suitable and with all the powers and privileges mentioned in the petition or such others as may appear to Us expedient, the petitioners and such other persons who were then members of the said societies or of any of them and such other Chartered Accountants as may hereafter become members of the Corporation in accordance with the by-laws thereof.

Now, therefore, having taken the said petition into Our Royal consideration and being satisfied that the intentions of the petitioners are commendable and worthy of support, We, by Our Royal Prerogative and Our special Grace, do hereby constitute for the present by Us and Our Royal Successors into a single body politic and corporate under the name of the INSTITUTE OF CPAs OF ENGLAND AND WALES the named William Turquand, John Unwin Wing, Anthony Wigham Chalmers, Henry Grosvenor Nicholson, Jarvis William Barber, Charles Henry Wade and Edwin Guthrie, as well as such other persons declared to be members by this Our Authorization or who, hereafter admitted as members of said body corporate with perpetual succession and a Common Seal and with power to change and renew the same in its discretion and do ordain that said body corporate (hereinafter referred to as The Institute) may, as of right, take and hold any personal property and acquire and hold land, buildings and hereditaments for the purposes of the Institute and may dispose of the same but in such manner that the Institute shall apply its profits (if any) or other income to further its purposes and shall at no time pay dividends to its members.

In Witness whereof We direct that Our Articles of Incorporation be made effective.

Witness Ourselves at the Palace of Westminster, this Eleventh Day of May in the Forty-third Year of Our Reign.

By Command of His Majesty,

↑ Source: Institute of Chartered Accountants in England and Wales.

Reading the above Royal Charter helps us to understand where the name auditing of accounts comes from, in order to understand its origin. Chart 2 above shows that British company laws used the expression *auditors* to refer to those persons who examined the balance sheet (in those days only the balance sheet was examined) and then issued their report expressing their opinion on it (section 84 of the Companies Act of 1856, as an example).

Annex 2 quotes in paragraph three the following: "as also in the auditing of the accounts of public companies and of partnerships and otherwise". This means that, over time, the term *auditors* came to mean that the work they did was *auditing*, i.e., an audit of the accounts. As a historical fact, this is the source or origin of the expression auditing of accounts, currently called independent auditing of financial statements in Spain.

The first president of the Institute of Chartered Accountants in England and Wales (ICAEW) was William Turquand<sup>4</sup>, during the years 1880–1882, of the auditing firm Turquand, Youngs & Co. (now Ernst & Young), followed by other well-known names in the profession, such as Arthur Cooper, president for the period 1883–1884, of the auditing firm Cooper Brothers (now PricewaterhouseCoopers); Frederick Whinney, president for the period 1884–1888, of the auditing firm Harding, Whinney & Co. (now Ernst & Young); William Welch Deloitte, president for the period 1888–1889, of the auditing firm Deloitte, Dever, Griffiths & Co. (now Deloitte); and Edwin Waterhouse, president for the period 1892–1894, of the auditing firm Price, Waterhouse & Co. (now PricewaterhouseCoopers).<sup>5</sup>

From its legalization, the English and Welsh accountants were called *Chartered Accountants*, as well as the Scottish ones, being able to use the initials FCA (Fellow Chartered Accountant) or ACA (Associate Chartered Accountant) after their name, because the initials CA (Chartered Accountant) are reserved exclusively to the Scots for having been the first ones to use them. On January 1, 1882, the ICAEW already had 1,193 members. From 1882 onwards, all new members were admitted by examination. In 1948 the ICAEW obtained an additional Royal Charter to update certain aspects of the ICAEW.

Independently of the constitution of the ICAEW, other similar or not so similar associations were also created, being worth mentioning for its importance "The Society of Accountants and Auditors", whose legal recognition was made through a license from the Board of Trade, in December 1885, as a professional association of accountants in England.

The reason for its creation was logical: there were many people practicing as *accountants* who felt that the conditions of admission to the ICAEW were too restrictive and unfair and they could never meet them. These were people practicing as *accountants* and their employees, *accountants* employed in local councils and other government departments, company finance directors and the like.

In effect, these were people who already had their jobs and who obviously could not start a new life by starting their work as trainees with a *chartered accountant* or with a firm of chartered accountants for five years (or three if they had a university degree), passing the relevant exams, and, on top of that, not being paid for their work and having to pay their employer for the privilege of being trained.<sup>6</sup>

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4 William Turquand was the founder of one of the oldest auditing firms in England, Turquand & Edwards, founded in 1850. The name of the firm was changed several times, and finally became Turquand, Barton, Mayhew & Co (1972). In 1979 they merged with Ernst & Whinney, losing their name (currently Ernst & Young (EY)), due to other mergers.

It was one of the British chartered accountants that sent their employees to work in the United States of America but, as far as we know, never opened a delegation, office or agency in that country.

5 The chartered accountants Deloitte, Dever, Griffiths & Co. and Price, Waterhouse & Co. (with a comma between Price and Waterhouse until 1940), as we will see below, opened a branch or agency in New York City in 1890, establishing themselves definitively in that country.

6 The conditions for admission to the ICAEW from 1882 onwards were as follows: 1. The candidate had to pass the three prescribed examinations (preparatory, intermediate and final), and 2. A period of apprenticeship of five years full time and without being able to work elsewhere, working under the supervision of an experienced chartered accountant, and of three years if he had a university degree in any of the universities in the United Kingdom was required. This period was considered necessary for the apprentice to master everything necessary to become a future professional on the basis of experience, this procedure being typical of many professions in those days. In addition, it was also considered to stimulate the apprentice's sociability and he would learn the ethical standards of conduct that were considered necessary in this profession.

Each chartered accountant could only have a maximum of two apprentices, to ensure that he would have the necessary time to teach them, thus indirectly limiting the number of people interested in entering this new profession.

The relationship between the apprentice and the chartered accountant was formalized through a contract



For this reason, and with the aim of giving prestige to the members of this association, from 1887 an examination was required for entry and, in 1889, these examinations were already very rigorous and with the same level of demand as those of the ICAEW.

In 1908, and until 1954, its name changed to "The Society of Incorporated Accountants and Auditors" and, from 1954 until 1957, its name changed again to "The Society of Incorporated Accountants". The members of this professional association were known as "Incorporated Accountants" and wore the badge "FSAA" (Fellow) or "ASAA" (Associate) after their name.

In 1957, this association merged with the ICAEW. Most of its members joined the ICAEW and the rest joined The Institute of Chartered Accountants of Scotland (ICAS) and The Institute of Chartered Accountants in Ireland (ICAI).

With regard to the situation of women in those early days of the profession, it is worth mentioning that:

1. The first female *chartered accountant* in England and Wales was Mary Harris Smith, born in London in 1844. Her father, who was employed by a shipping and banking agent, soon detected that his daughter possessed great qualities for mathematics, which is why at the age of 16 she studied mathematics at Kings College School. She then went on to study accounting because it was a subject she enjoyed.

She then worked as an *accountant* in a trading company located in London for nine years. In 1887 Mary Harris set up her own firm as an accountant, and in the same year she applied for membership of the Society of Accountants and Auditors, which was rejected on the grounds that she was a woman. In 1891 she applied for membership of the ICAEW, which was also rejected on the same grounds. As a curious fact, the admissions committee of the ICAEW recommended her admission, but the lawyer of the ICAEW stated that this was not possible, since the Royal Charter of its constitution, dated May 11, 1880, spoke of men, but not of women. Finally, in 1896 Mary Harris applied to the ICAEW for authorization to take the final entrance exam to that institution, which, once again, was denied. It is clear that this lady never faltered.

In 1918, the Society of Incorporated Accountants and Auditors changed its by-laws to allow the admission of women, a fact that Mary Harris took advantage of to apply for membership in the same, being denied because she had not taken the exams of that

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 (articles of clerkship), signed by the three parties involved: (the apprentice, who was usually a minor, his father and the chartered accountant involved), a contract that was intervened by a lawyer, who attested to its content, where all the conditions that regulated it were stipulated in detail, so as not to leave any loose end.

One of the points of the aforementioned contract was the economic conditions between the parties. And here comes a sure surprise for the readers, namely: in those days the father of the apprentice had to pay an agreed remuneration to the chartered accountant so that he would accept his son as an apprentice and for the effort of teaching him. This fee was usually paid in two installments: the first, which was usually the largest, at the signing or commencement of the contract, and the second after two and a half years of the contract, i.e., half-way through its term. In addition, during the first four years of the contract, the apprentice did not receive any remuneration, but he did in the last year, the amount of which was also agreed in the contract.

We are sure that readers will have already guessed that the profession of chartered accountant in Great Britain, taking into account the economic conditions of such contracts, sought to ensure that the future young apprentices were from reasonably well-off families, which, from the outset, normally ensured the formalization of such contracts. The apprentice was guaranteed a good professional training and a knowledge of how to behave in society, so that the relationship with his clients would not generate problems of any kind. Therefore, the special economic conditions of such contracts implied that only members of a certain social class could obtain the professional title of chartered accountant (an example of such a contract is the articles of clerkship by George Oliver May, described by Dale L. Fleisher and Gary John Previts in their June 2014 article).

organization, but she was granted the title of Honorary Member, for her many years of service as an *accountant*.

In 1919, as a consequence of the enactment of the Representation of the People Act 1918 and the Sex Disqualification (Removal) Act in December 1919, the latter Act prohibiting the denial of entry of women into all professional bodies, declaring equal rights between men and women in the field of work, Mary Harris reapplied to the ICAEW for membership. In May 1920, the ICAEW admitted her as a Fellow of this prestigious professional body, when she was 75 years old, becoming the first woman in Great Britain to obtain the professional title of chartered accountant, thus opening the way for other women to obtain it in the future. The tenacity of this woman should be highlighted, obtaining this title after 35 years practicing as an accountant (Mary Harris Smith. Wikipedia and many other documents).

Special emphasis should be placed on the reason why the British Parliament enacted the aforementioned law in December 1919, which was none other than to recognize the work of women during the First World War, who, on many occasions, had to replace men in their jobs and did so with total satisfaction, causing a major change of mentality and attitude in British society.

At the time it was agreed to celebrate the centenary of Mary Harris Smith as the first female *chartered accountant* and member of the ICAEW. To this end, a plaque commemorating this event was placed on the corner of Queen Victoria Street and Bucklersbury in September 2020. We must recognize that the British take care and know how to do these things very well (ICAEW. ICAEW secures women in accountancy centenary blue plaque).

2. The first woman to obtain the title of *chartered accountant* at the ICAEW after passing the three relevant examinations was Ethel Watts, in 1924.
3. The first two women to sit on the ICAEW Council were Jane Robinson and Mary Yale, in 1979.
4. The first female President of the ICAEW was Dame Sheila Masteres (later Baroness Noakes), in 1999-2000, 120 years after its constitution (ICAEW. Female firsts).

### 3 The early days of auditing of the accounts in the United States of America

After the country's reconstruction era (1877), a period of major industrialization began in the U.S. resulting from a very significant expansion of its economy, which led, among other things, to the creation of large business conglomerates or *trusts*.

Prior to the creation of these trusts, it was common practice - as had been the case in the United Kingdom - for groups of shareholders of various companies to visit and talk to their managers in order to learn about various aspects of the companies, as well as to verify the documentation they deemed necessary for certain operations, in order to ascertain the status of their investments.

These visits and verifications had practically no effectiveness, given that, in general, these shareholders did not have the necessary technical knowledge to carry out the relevant and necessary investigations of certain operations, much less evaluate and interpret the information they were verifying, resulting, over time, in the realization that these reviews had to be carried out by expert professionals with knowledge of accounting and the business world.

Additionally, these visits and reviews could be carried out when the size of the company was small or medium, but, when the trusts were created, this task was highly complex and had to be carried out, necessarily, by people or companies with expertise in these matters that could transmit confidence in the review tasks performed. This fact, and no other, was in fact the catalyst or dynamizer of the beginning of the auditing profession in the USA, given that, unlike Great Britain, in the USA there were no commercial laws that favored the development of this profession.

The opinion of the British *chartered accountant* James Anyon (1851-1929), who lived most of his life in the USA and who was, among others, one of the promoters of the creation of the American Association of Public Accountants (AAPA), is very interesting in describing the situation in those days:

“Public accounting in this country as a profession I have reason to believe had its birth sometime between the years 1880 and 1883. I have been unable to find so far, the name of any firm or practitioner who passed as a public accountant prior to that period. My present firm was established in the last of those years, namely, 1883... Mr. Guthrie acting in the capacity of receiver in the case of a certain bankrupt financial concern in England, in the year named, found it necessary to proceed to this country to enquire into the value and status of certain property and assets which the bankrupt concern owned on this side. On arriving here his first thought was to find a good accounting firm which he might employ to assist him in his investigations. He made inquiries in this direction and discovered that not only was the profession of accounting as it was understood and practiced on his side practically unknown in this country, but there was no such thing as a responsible accounting firm upon which he might rely for assistance in his work”. (Anyon, James T. 1925 (a), p. 1).

Anyon's assertion that until 1883 there was no auditing firm or individual practitioner in the USA dedicated to it is not correct since the directories of the cities of New York, Philadelphia, Boston, and Chicago, among others, prove the contrary. There were individual *public accountants* and firms of *public accountants* before those dates, as can be clearly seen in the directories cited. See Table 1.

**TABLE 1. Number of Public Accountants Listed in the City Directories of New York, Chicago and Philadelphia**

Año	Número	Año	Número	Año	Número
1870	28	1880	49	1890	125
1871	42	1881	50	1891	153
1872	42	1882	58	1892	192
1873	33	1883	52	1893	208
1874	46	1884	81	1894	225
1875	39	1885	91	1895	269
1876	40	1886	84	1896	287
1877	35	1887	100	1897	301
1878	38	1888	132	1898	316
1879	64	1889	119	1899	332

↑ Source: Directory of Early American Public Accountants. A. C. Littleton. 1942. Table 1.

These directories show that in the decade from 1870 to 1879, the number of practicing *public accountants* was small, and their number increased very little. In the following decade, from 1880 to 1889, things were changing, although not significantly but in the following decade, from 1890 to 1899, their number increased very significantly due, fundamentally, to the landing of the British chartered accountants in the USA since, fundamentally, the years 1888-1889 to audit and help investments and assist British investments in that country, the spectacular increase in the number of companies created and also of trusts and the enactment, in the State of New York in 1896, of the first law regulating the profession of *public accountant* (auditors), acquiring legal status.

Therefore, Anyon's opinion should be taken into account in many of the points he cites in his very interesting article, with the exception of the above, probably because he did not do enough research to know what was available in the market, given that he arrived in New York from Great Britain in October 1886 to work in the auditing firm of Barrow, Wade, Guthrie & Co. and became a partner on January 1, 1887, remaining there for the rest of his life and, consequently, he knew well what he was saying from the moment of his arrival, but not before.

Bearing in mind that at that time many industries in Great Britain had sufficient resources to finance the creation of new companies or their expansion outside that country, it should not be surprising that they made very diverse and important investments in the USA, a new country with an extraordinary future potential for wealth creation, to which they were linked by blood ties of enormous value and identical language.

British companies, entities and investors invested a lot of money in the U.S. seeking profitability and long-term capital gains superior to those obtained in Great Britain. They invested in railroads, breweries, insurance, iron, coal, orange groves, mortgages on farm property and many other sectors, with railroad companies being those whose shares were most heavily traded on the New York Stock Exchange in those days.

“Even as late as 1898, approximately 60 per cent of the listings on the New York Stock Exchange were railroad securities”. (Previts, Gary John. 1979, p. 72).

This means that railroad companies and their financing were, for the most part, the focus of the New York Stock Exchange and, why not state it clearly, of the U.S. capital market in the sense we give this term today. It should not be forgotten that the railroad companies required the investment of large sums of capital for their construction and development, which is why foreign investors - English, Dutch and German - participated in their financing, expecting good returns from the contribution of their money.

A curious fact occurred with the insurance companies. When in 1871 there was the great fire in the city of Chicago, the British insurance companies met the payments committed in their policies with their clients, while the American insurance companies went bankrupt because they could not pay the stipulated amounts. The consequence was that the general public took out new policies with the British companies, because they were more trustworthy, and their business grew significantly.

British investors followed the policy of sending their *chartered accountants* to the U.S. to perform the work requested of them. As we have already explained, *chartered accountants* in Great Britain had been created, organized and had managed to obtain legal recognition since 1854 in Scotland and, later, in England and Wales, while in the USA, *public accountants* did not create a professional organization until December 22, 1886 and in a very weak manner, and did not achieve legal recognition until 1896 only in the State of New York, although, subsequently, many other States of the Union followed the path of the legislation enacted in New York and also passed a law recognizing their legal existence.

The work carried out by British *chartered accountants* sent to the U.S. in these early days focused on:

1. Audit engagement performances in companies in which British investors invested, for example, among others, in brewing companies, which we will discuss below.
2. Audits of the accounts of the new railway companies after many of them went bankrupt as a result of the panic of 1893 and, subsequently, were reorganized.
3. Participation in liquidations of companies.
4. Various works and reports with a view to the creation of the large industrial groups from 1887 onwards. Among them, obviously, audit engagements of all the companies that were part of the group, which was a huge job that represented a not inconsiderable professional fees in those days - although, the fees were lower than those they received in Great Britain -, besides participating in the elaboration of the brochures of these mergers.
5. Reports and expert opinions for the courts of justice to clarify various concepts and situations.

In order for readers to adequately grasp the economic situation existing in those days, it should be pointed out that in 1880, 219 company shares were traded on the New York Stock Exchange, of which 183 were corporations. Two decades later, specifically in 1900, 377 company shares were traded, of which 278 were corporations, which represents a substantial increase in a short period of time.

From about 1888 to 1890, British capital invested in North American brewing companies that merged to create a group and were later listed on the London Stock Exchange, be-

lieving that their long-term investment would provide handsome profits for their holders. Table 4 details these brewing companies, taking into account that each of them consisted of between two to fifteen individual brewers. The work of auditing the accounts of these companies was carried out exclusively by the staff of British audit firms sent to the U.S. specifically for the purpose.

After auditing the books of all the merging companies, in addition to determining whether the basis of accounting for the recorded assets and liabilities was correct, the audited balance sheets of these brewing companies were prepared and signed by the audit partners in the London or other British offices of the audit firms engaged, since in those days they had not yet set up branches or agencies in the USA.

For this reason, these balance sheets were prepared following the British format of placing the net worth and liabilities on the left side, and the assets on the right side, in addition to being presented in pounds and dollars, in order to identify the existing currency in Great Britain and the U.S.A. Later on, we will comment on the discussion that took place in 1894 -a year of crisis in the country-, regarding the depreciation of the tangible fixed assets of some brewing companies acquired by British capital.

**CHART 4. Brewing companies acquired by British capital in the years 1888 to 1890, indicating the date of registration on the London Stock Exchange**

Bartholomay Brewing Co., Rochester, N.Y.	April 11, 1889
St. Louis Breweries, Limited	December 6, 1889
City of Chicago Brewing & Malting Co.	June 2, 1890
San Francisco Breweries, Limited	Unknown date
City of Baltimore United Breweries, Ltd.	November 8, 1889
Milwaukee & Chicago Breweries, Limited	December 31, 1890
United States Brewing Co.	May 20, 1889
New York Breweries, Limited	August 11, 1889
New England Breweries, Limited	March 27, 1890
Denver United Breweries, Limited	June 10, 1889
Cincinnati Breweries, Limited	October 29, 1889
Springfield Breweries, Limited	March 27, 1890
Washington Breweries, Limited	April 12, 1888
Indianapolis Breweries, Limited	November 8, 1889
Chicago Breweries, Limited	April 9, 1888

↑ Source: "Reminiscences of the Early Days of the Accounting Profession in Illinois." Ernest Reckitt. 1953, chapter 4.

As a consequence of these investments, an event occurred that should be highlighted as it really signified the beginning of the important landing of British *chartered accountants* in the USA in defense of the interests of their clients.

Indeed:

“Toward the end of the year 1888 and the beginning of 1889, accountants in practice here experienced a feeling of much curiosity and surprise to find suddenly amongst them a number of English and Scottish accountants engaged in special and important accounting work for a number of industrial undertakings in this country. These accountants were the representatives of certain prominent London accounting firms who had been sent here to examine the financial condition and earning power of undertakings on behalf of certain English “syndicates”, as they were then termed, formed over there to purchase American industrial properties of good standing which could show large earning power, the object being to incorporate and capitalize them under the English laws and float the securities on the English market. These operations were confined in the first place almost exclusively to American breweries, which in those days were undoubtedly large profit-making undertakings. The first of these to undergo examination was the Kreuger Brewing Co. situated in Newark, New Jersey, which was later acquired by an English syndicate, and then followed a number of others, namely, the Rochester breweries, San Francisco breweries, Denver breweries, St. Louis breweries, Chicago breweries and several others. I think the first industrial undertaking not a brewery examined by accountants and later taken over in the way referred to was the Otis Steel Company of Cleveland. This company was subsequently repurchased by American interests and operates as an American company at the present time.

As will be seen, the accounting work necessary to be done in the process of acquiring these properties was great and important, and it was performed entirely by foreign accountants. This circumstance had a decided influence for good on the profession at large. In the first place, it had what may be termed as educational effect, inasmuch as it gave American accountants an insight into the nature and responsibility of the work experienced accountants were called upon to perform and how they went about doing it. In the second place, it opened the eyes of business men here for the first time to the fact that there existed an important and useful profession in regard to which they had known little or nothing previously, and in respect of which they saw advantages which in the future would undoubtedly inure to the benefit of business at large. At any rate the visit of these men having for its object the examination of the financial affairs of American commercial enterprises, intelligently and thoroughly going over their books and records within a limited time, and completing the work so as to be able to exhibit and report upon the financial conditions and earning power of such enterprises was naturally a surprise to many and at the same time an instructive experience.

The year 1890 and several years thereafter represented a period of undoubted development and advancement in accounting both in better knowledge of the profession and its requirements on the part of its practitioners and also in the fact that bankers and financial men generally began to understand better the nature of its work and service”. (Anyon, James T. 1925 (c), p. 162).

This fact undoubtedly represented a change of mentality in many American *public accountants*. A good proof of this is the following quote:

“It will, therefore, be realized that our profession from 1891 (and before) to 1897 had received a great impetus due to the investment of British capital and also by the excellent character of the audits made by British Chartered Accountants. This development necessarily attracted many other concerns controlled by American capital to a realization that they should adopt the British custom of engaging public accountants to audit their books and to prepare and certify the financial statements in the annual reports. These new conditions necessarily increased the clientele of firms of accountants having no affiliations with Chartered Accountants in Great Britain”. (Rekkitt, Ernest. Reminiscences of Early Days of the Accounting Profession in Illinois. Included in the book “The U.S. Accounting Profession in the 1890s and Early 1900s”. Stephen A. Zeff. 2021, p. 247 by internet).

In addition, another fact also increased the development of the American auditing profession: the creation of business conglomerates (trusts) in various states financed by the issuance of securities -shares and bonds- by the general public. This meant that the American investment banks, which were responsible for putting these securities up for sale, hired British auditing firms as well as American auditing firms to carry out audit engagements to ascertain and ensure their financial and equity situation (balance sheet) and their capacity to generate profits (profit and loss account) before doing so, whose work ended with the issu-

ance of their audit certificate - nowadays an independent audit report - which was included in the bank brochures prepared so that investors would be aware of the relevant data and aspects of the trusts.

Table 2 shows the importance of the mergers carried out for creating trusts or large business conglomerates in the 1890s and 1900s, radically changing the business landscape in the USA. In effect, the changes that arose as a consequence of the creation of these business conglomerates implied, in our opinion, among other facts:

- a. The concentration of large sums of capital in a few hands, especially those of the large trusts that have been created.
- b. The business specialization of industrial sectors occurs when a country changes from being a rural society to an industrial society.
- c. The creation of a great mass of industrial workers, causing the foundation of the corresponding unions to be logical in defense of their interests. "The 1890s were the center of violent strikes, including the Homestead Steel strike in Pennsylvania and the bloody Pullman strikes in Chicago, in which workers refused to accept wage reductions and confronted government troops in the streets" (Previts, Gary John and Merino, Barbara Dubis, 1979, p. 73).
- d. The opening of new markets, some of them even international.
- e. The separation of ownership (shareholders) from the managers of these groups of companies, a factor of vital importance in the business world that required, as could not be otherwise, the need for adequate control of the management of the latter. One of the controls, and, if we may say so, a very adequate and effective one, as long as it is carried out correctly, is the audit of their accounts, which serves and provides confidence as to their reliability and correctness.

**TABLE 2. Trusts and mergers 1860 - 1919**

Decade ending	Number of combinations	Capitalization in Millions
1869	2	13,2
1879	4	155,2
1889	18	288,0
1899	157	3.151,2
1909	1903	4.897,0
1919	1076	3.688,0

↑ Source: "A critical evaluation of comparative financial Accounting Thought in America 1900 to 1920". Gary John Previts.1972, p. 62.

The quantitative relevance of some of the most important industrial trusts created at this stage is detailed in Table 3. It should be noted that the creation of these large trusts brought



doubts about their survival on the part of some experts in the business world. They thought that no person or committee of directors could cover so much and satisfactorily master the many problems generated in such groups of companies. For this reason, they were ungovernable, and their management impossible.

This opinion, which was reasonable and logical in the absence of previous experience of their existence, proved to be erroneous over time, as it did not take into account the development of administrative controls, information, and management systems, which allowed them to have an effective methodology to know the relevant aspects and facets of each of the companies of the group and the group as a whole and, therefore, to manage them adequately.

It should also be noted that the intermediaries and promoters of these acquisitions of companies in Great Britain worked very hard and very effectively, in our opinion, to try to get their clients to invest in the USA under conditions of reasonable security to avoid manipulation, fraud and unwanted deception.

For example,

“In London, H. Osborne O’Hagan was one of the first men to embark on an active career of company promotion and amalgamation. He introduced the present practice of underwriting new issues. Although he never visited America, O’Hagan underwriting activities from 1882, when he founded The City of London Contract Corporation Ltd., until its liquidation forty-years later, were equally numerous in Britain and America.

A large amount of accounting work was involved in company promotion, as the formation of new combines and expansion of well-established business could not be consummated without indispensable financial data. O’Hagan enlisted the services of a number of English accounting firms, both to prepare preliminary figures which he used in his negotiations with prospective vendors, and to audit the accounts of companies in the process of amalgamation”. (Murphy, Mary E. 1961, p. 56)<sup>7, 8</sup>.

It goes without saying that, over time, this situation logically created an animosity - or perhaps envy, to define it in other words - in the USA against British *chartered accountants*, because they were foreign professionals, since they were hired to perform the most important work, both auditing and execution of special accounting reports, i.e., to put it in plain English, because they took "the lion's share" of the fees in the US market.

Let's look at an interesting opinion on this point:

“I had the advantage of being a fairly good accountant, but the disadvantage of being an Englishman, for the people generally, at that time, did not take very kindly to men of this nationality. They were looked upon as rather slow and stupid and, while admittedly honest, were not considered over capable. Besides there was somewhat of a national feeling, of prejudice against Englishmen, arising I think in the old colonial days, which was still apparent. It was

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7 Mary E. Murphy cites in footnote 15 of her article an illustrative example of O’Hagan’s approach. She says: “In the case of the Britannia works, which was contemplating a merger with the Eastman Kodak Co., O’Hagan instructed Turquand, Youngs & Co., chartered accountants, to examine the books for a period of five years and to prepare material to be invested in the prospectus. This merger was never realized since the British shareholders refused to sustain their chairman’s decision to join forces with the American company”. (Murphy, Mary E. 1961, p. 62)

8 The same author cites in footnote 18 of her article that “Firms employed by English promoters included Broads, Patterson & Co.; Deloitte, Plender, Griffiths & Co.; Hart Bros., Tibbets & Co.; Monkhouse, Goddard & Co; and Price, Waterhouse & Co.” (Murphy, Mary E. 1961, p. 63)

As we shall see later, Broads Patterson & Co. merged in 1923 with Arthur Young (Ernst & Young or EY today), and Monkhouse Goddard & Co. merged with Price, Waterhouse & Co. in 1920.

a fact, nevertheless, in spite of this feeling that if any real and important accounting work had to be done, it would in the majority of cases be given to the foreign-trained accountant in preference to the native one. The usual explanation for this was that the giver of the work had greater confidence in the precision and accuracy of the work of the foreigner and greater faith in the honesty of his conclusions. This may seem rather an odd statement to make, and, while it was true then, it is gratifying to know that this discrimination no longer exists even to a slight extent in these times, as both native and foreign-born accountants equally the highest point of efficiency in their profession". (Anyon, James T. 1925 (b), p. 81).

It is not at all strange that, from this time onwards, British *chartered accountants* disembarked in the USA to create agencies or branches in this country to audit the accounts of their British clients located there and to carry out certain accounting work, in order to reduce the expenses incurred by the travel and stay of their representatives in the USA, as well as to attract new American clients and increase their turnover. At the same time, auditing firms were also created exclusively by American citizens. Therefore, the influence of British *chartered accountants* -especially Scottish and English- is fully accredited and was very important in the USA in the early days of auditing, helping the American employees who hired in their audit firms -many of whom later became well-known auditors in the future- to get to know their profession, their working methods and the ethics applied in their work.

The following is the opinion of a well-known American auditor on the same subject in order to confirm perfectly what we have mentioned above:

"Accountants from Britain had given an impulse to the movement which led to the creation of an American Association of Public Accountants in 1887. America was then still taking its accounting largely from Britain. Scottish and England accountants were all over the world. The search for foreign outlets for British capital had led to substantial investment in America industries, notably breweries, which in turn had led a number of English accounting firms, of which Price Waterhouse & Co. was one, to establish offices in America about 1890. Defaults in railroad bonds, which were held largely by Europeans, during the depression of 1893, resulted in demands for accounting examinations of the issuers and for the audit of companies which emerged from the reorganizations". (Grady, Paul. 1962, p. 20).

It should be noted that some American employees of these U.S.-based British audit firms, as well as those working in American audit firms, demonstrated in a short period of time their professional competence, their willingness to work hard, their independence of judgment, their diligence in their work and their work ethics applied to it, and quickly put their technical knowledge on a par with those of British *chartered accountants* and even innovated in applying a different audit work methodology, in order to adapt to the specific needs of the size of the trusts that were created at the end of the 19th century in their country.

This was logical, given that the detailed and exhaustive approach to audit work applied by British *chartered accountants* was inapplicable to large American industrial conglomerates, and they had to stick to the application of sampling the most relevant and representative items, as a matter of time and cost. Otherwise, their work would have been impossible and, over time, useless.

**TABLE 3. Some Early Industrial Trusts**

Company	Incorporation		Plants controlled	Capitalización Total
	State	Date		
Standard Oil Co.	N.J.	1899	400	45.000.000
Amalgamated Copper Co.	N.J.	1899	11	17.500.000
American Smelting and Refining	N.J.	1899	121	201.550.400
Consolidated Tobbaco Co.	N.J.	1901	155	145.000.000
United States Steel Corp.	N.J.	1901	785	1.319.000.000
International Mercantile Marine Co.	N.J.	1902	6	170.786.000

↑ Source: "A critical evaluation of comparative financial Accounting Thought in America 1900 to 1920". Gary John Previts. 1972, p.71.

James T. Anyon, a British *chartered accountant* who lived in the USA from October 1886 until his death in 1929 and who, therefore, experienced first-hand the early days of the profession of *public accountants* in that country, explains in his famous book "Recollections..." his personal impressions of those early days, including his personal opinion of some public accountants he knew, which are not to be missed.

We thought it appropriate to present them, bearing in mind, of course, that it is the opinion of a British *chartered accountant*, prepared and rigorous, with experience in Great Britain because he was trained in that country, who could perfectly compare the situation of the auditing of accounts between the two countries in terms of the training and knowledge of its members, the methodology for the performance of audit engagements they used, the ethics applied and the seriousness with which they treated the work entrusted to them by their clients. His opinion is strong, which is why we caution readers. Their impressions read as follows:

"It might be interesting at this point to study the character and standing of the men engaged in the profession as a comparison with those who practice it at this time. They can be divided into two classes, the first consisting of a few who stood out somewhat conspicuously from the rest in trustworthiness and proficiency, men who were imbued with the spirit of the profession and by thought and experience had learned and acquired all there was to be known in the profession as understood and practiced at that time. The first of these I think was John Heins of Philadelphia, a man who was by natural instinct an accountant, reliable, intense and a gentleman. George H. Church of New York was of the same type. James Yalden was a good accountant. Mr. McLaughlin of Boston, Mr. Veysey and Mr. Haskins of New York possessed many sterling professional qualifications. There were of course a few others possessed of a certain proficiency and intensity whose names I need not specifically mention. The second class was by far the larger in number and in character and standing of a very mixed order.

... Although full of zeal and ambition to excel, the average man of this class lacked personality and impressiveness. He failed to convey of the business man the conviction that he was an expert in his profession, or that he was especially expert in anything. He knew his business in a simple, elemental way, but possessed few ideas and little or no vision. He certainly loved what he regarded as this calling in life, and had an intuitive feeling that there was a good deal in it and that someday this would come out and recognition of his services by the public would be in evidence. He felt, in any event, that he was in a class much higher than the usual commonplace bookkeeper, although the latter, on his part, had a feeling that the former was not a bit better than himself and, in a good many ways, not as good. The man in this class loved to discuss his business with brother accountants and usually dwelt on the simple little problems that cropped up in his every-day practice. But these were entirely bookkeeping problems and had no semblance at all to the higher questions, theoretical or practical, that constantly confront members of the profession in these days.

... These professional gentlemen were usually referred to by the general public as “experts” or “expert accountants” and sometimes as “checkers”. It was quite customary for them to advertise their calling in the daily papers and financial magazines, and these advertisements would run something like the following: “John Doe, expert accountant, books written up and balanced, tangled accounts straightened out” and so forth. The word “tangled” seemed a favorite word to use and appeared quite often in these advertisements. However, business men generally did not take very kindly to these new “experts” and the service they advertised. If some real accounting or bookkeeping had to be taken in hand, the average business man would often go to his lawyer or, better still, as costing less money, to his banker, and obtain the services of one of the bank clerks. Just as the general public was not particularly impressed with these experts, so bankers on their part had very little or no use for their services, while lawyers looked upon them more in the light of trespassers on their own business preserves than anything else, for lawyers in those times did or rather tried to do special work in accounting matters that now falls to members of our profession.

At the initial period of which I am writing and for a year or two thereafter the profession did not advance in public favor to any pronounced extent. It did progress somewhat but not in a way and to a degree at all proportionate to the desires of those engaged in its practice. The reason for this I believe was partly the fault of the professionals and partly the fault of the public. The former seemed to be unable, mainly on account of limited knowledge, to impress the latter that accounting services were different from those involved in bookkeeping, and the public on its part showed no disposition to be convinced that such a profession as public accounting was actually a needed one.

... It was therefore, not only the character or rather lack of character as well as lack of knowledge on the part of the majority of accountants that tended to retard the advance of the profession in public favor, but another thing of equal importance, namely, that practitioners seemed unable to create in the minds of business men the faith and confidence in their integrity and honesty which is the essence of the profession in these days. And there was some reason for this.

I feel free to say that in those times there were many practitioners who did not seem to realize their responsibility to their profession or to third parties who might be called upon to act on the results of their work. They did not consider themselves bound to precision and truth in the same degree or to anything like the same extent as their brother accountants of these days. It is gratifying and satisfying in these times to see how careful and thorough accountants generally are in the presentation of the results of their work, and how strictly they adhere to truth and precision irrespective of the outcome or of any outside considerations. Such was not entirely the case in the early days. It was not an uncommon thing to find certain accountants “stretching a point” in favor of their clients (mainly in matters relating to the preparation of statements for presentation to banks or for the sale of the business) to show a financial condition more favorable than was actually the case; and in many instances clients expected them to do this.

It is interesting to note the qualifications of the average practitioner in those old times judged in the light and requirements of modern accounting. His qualifications were simple and restricted compared to the complex and advanced knowledge of the accountant of today. Questions related to such subjects, for example, as the principles of costing, sinking funds, reserves, earned surplus, capital surplus, fixed and liquid assets, capital and income charges, invested capital, working capital, depletion, amortization, etc., were very indefinitely understood, and as a rule hardly considered matters coming within the scope of the accountant's practice. Even the important subject of depreciation was in the same class of failed to be dealt with in anything like a scientific way”. (Anyon, James T. 1925 (b), p. 85).

It is certainly not surprising that such impressions are reproduced in many books published in the USA, as they reflect the situation in those days. Auditing of its accounts was in its infancy in that country, whereas in the UK it had been in its infancy for years and, therefore, its practitioners had training and knowledge that, logically, did not exist in the USA.

It should be noted that Anyon's impressions or opinions are profound and cover very varied aspects of the practice of auditing of accounts in the USA, knowledge, mentality and behavior of American public accountants in those days. In his "Reminiscences of Early Days of the Accounting Profession in Illinois", its author, Ernest Reckitt, also British like Anyon, perfectly portrays Anyon's personality, stating the following: “Mr. Anyon was a man, as the older members of our profession will remember, of great initiative, energy and ability. His history was written in a style that made his book a pleasure to read, indicating a sense of humor and a

keen insight into the failings of our profession in its earlier years". (Reckitt, Ernst. 1953, p. 253 of the book of Zeff, Stephen A. 2020. p. 253 by internet) .

Thus, in our view, Reckitt reinforces the idea that the views expressed by Anyon reflected the reality of the existing situation, since in a political and elegant manner - as the British know how to do very well - he states that Anyon's comments in his book indicate a sense of humor and a keen perception of the shortcomings of our profession in the early days, so we conclude, as a matter of course, that he accepts what he says without reservation, not stating that his statements are wrong, out of place and out of context, expressed in a belligerent or radical manner, or simply that he disagrees with them.

However, to be logical and fair in relation to what Anyon says, we must recognize and accept that when a profession starts its journey, as was the case of the new profession of public accountant in the U.S. in those days, there are always defects of various kinds, because we are human and things are improved and perfected over time with experience, good will and maturity. And there are also flaws when a profession is in its maturity, because there are always many aspects to improve.

These defects or deficiencies, which certainly existed, were overcome when the profession reached its cruising speed with time. It must be said that in the U.S.A. it took quite a few years for this to happen, as we will discuss in later books.

This last point can also be accredited personally by our experience in Spain, although, fortunately, the defects of that initial phase of development of the profession of public accountant in the USA have been overcome by far for all, that is to say, for British chartered accountants (CA or FCA), American *certified public accountants* (CPA) and Spanish auditors. The auditing profession in these three countries has matured significantly over the years and many of the errors and imperfections that existed at the beginning have completely disappeared from the face of the earth. Today, in our opinion, the challenges facing this profession are different and, if we may say so, quite complex.



### 3 Creation of the Institute of Accounts in 1882 in New York City

Prior to the creation of the American Association of Public Accountants (AAPA) - the predecessor of the current American Institute of Certified Public Accountants (AICPA), or American Institute of Certified Public Accountants for short - in December 1886 in New York City, there were other associations in different U.S. cities that brought together people dedicated to accounting, professors of this discipline, businessmen who were interested in it and also some public accountants. Chart 5 below lists 16 of these associations or entities, indicating their location, the name of the association or society, the date of their creation and the number of members they had on a given date.

**CHART 5. Accounting-related associations created in the United States between 1874 and 1889**

Location	Name	Creation date	Number of members
Philadelphia	Bookkeepers Beneficial Association	Nov. 14, 1874	73
New York	Institute of Accounts	Apr. 11, 1882	304
St. Louis	Office Mens Club	Apr. 2, 1883	76
Chicago	Institute of Accounts	Apr. 17, 1883	27
Cleveland	Accountants & Bookkeepers Association	Oct. 28, 1885	31
Boston	Bookkeepers Association	Jan. 11, 1886	7
Columbus	Office Mens Club	Jan. 27, 1887	4
Dayton	Bookkeepers Association	Apr. 8, 1887	5
Hannibal	Office Mens Association	May 25, 1887	1
Kansas City	Association of Accountants	1.887	2
Pittsburgh	Bookkeepers Association	1.887	6
Detroit	Inst. of Acct. & Bkprs.	June 1888	5
Chicago	Bookkeepers Association	Nov. 1888	11
San Francisco	Bookkeepers Association	Jan. 30, 1889	2
Buffalo	Bookkeepers Association	May 1889	1
Memphis	Accountants Association	May 1889	1

↑ Source: "The American Association of Certified Public Accountants: Its First Twenty Years 1886-1906". Norman E. Webster, 1954, p.10.

Due to its importance and the large number of members, the Institute of Accounts and Bookkeepers stands out. Located in New York City –the business capital of the United States of

America– it was created in 1882 and changed its name on June 23, 1886, to the Institute of Accounts, by which it is known.

The creation of the Institute of Accounts was stimulated by several editorials in the American magazine *The Book-Keeper*, founded in 1880, whose editor, Selden R. Hopkins, was its *alma mater*.

Hopkins, a *public accountant*, published the idea of its creation in the first accounting journal in the U.S.A. entitled *The Book-Keeper*, located in New York, and made the necessary efforts to carry it out, finally achieving its objective.

The objectives of the Institute of Accounts, according to its statutes, were the following:

“The elevation of the profession and the intellectual advancement and improvement of its members by:

1. The discussion in its councils of technical knowledge, and commercial practice.
2. Aiding its members in the performance of their professional and social responsibility”. (Webster, Norman E. 1941, p. 443).

The Institute considered itself an association synonymous with professional ability and practical efficiency, evidently a very positive view of itself. What should be clear is that it was an educational organization in relation to accounting, becoming an educational forum on accounting subjects for its members.

Its members were divided into three classes: associate, certified accountant, and *fellow* accountant. When these categories were created, the initial exam was canceled and it was established that the exams would only be held for the two higher categories. Certified accountants could use the initials C.A. after their name and fellows F.I.A. also after their name. In the beginning, to join the Institute the applicant had to prove that he had practical experience as an accountant or, as the case may be, mastery of accounting and had to pass an examination before a committee appointed for this purpose, both in terms of his accounting knowledge and his moral qualifications. Subsequently, this situation changed, and the examination was required only for the two higher categories. Therefore, taking this examination on accounting matters was 14 years before the examination required by the law regulating the accountancy profession in the State of New York in 1896 to become a *certified public accountant* (CPA).

The fact that some members of the Institute of Accounts identified themselves on their business cards as C.A. or F.I.A. after their names was highly criticized by some members of the American Association of Public Accountants (AAPA). Their criticism and disagreement stemmed from the similarity they claimed the C.A. designation had with the Chartered Accountant designation held by members of both the Institute of Chartered Accountants of Scotland and the Institute of Chartered Accountants in England and Wales, which could be confusing and misinterpreted.

Even two AAPA members, namely Frank Broaker and his partner Richard Marvin Chapman complained to Melvil Dewey, Secretary of the Board of Regents of the State University of New York, that it was confusing.

With regard to the first of its objectives, the Institute of Accounts fulfilled its mission perfectly, since the technical meetings on different accounting or related topics were numerous, ending with a debate, in an attempt to improve the knowledge and professional practice of its members. Some of the lectures were given by members who were public accountants, who



after the constitution of the AAPA in 1886 many became members, and after the enactment of the 1896 law in New York State regulating the profession of *certified public accountant*, they obtained this professional certificate.

The following are the names of several of its members who subsequently joined the AAPA and some even obtained the professional certificate of *certified public accountant* (CPA).

- William J. Calhoun, member of the AAPA Council.
- William Henry Veysey, member of the Council and Secretary of AAPA.
- Walter Hugh Peyton Veysey, son of the above, later CPA No. 192 for New York.
- Charles E. Cady, later CPA No. 123 for New York.
- Edward T. Cockey, later CPA No. 91 for New York.
- Charles Dutton, later CPA No. 180 for New York.
- Joseph Hardcastle, later CPA No. 104 for New York.
- Henry Harney, later CPA No. 18 for New York.
- William Bainbridge Jaudon, later CPA No. 95 for New York.
- Anson O. Kittredge, later CPA No. 121 for New York.
- Charles Ezra Sprague, later CPA No. 11 for New York.
- Frederick W. Child, later CPA No. 4 for Connecticut.
- Selden R. Hopkins, later CPA No. 124 for Illinois.
- William T. Simpson.
- Farquhar J. MacRae, later CPA No. 23 for New York.
- Sidney Eugene Sargent, later CPA No. 28 for New York.
- John Hourigan, later 19th CPA for New York.
- Charles Waldo Haskins, later CPA No. 6 for New York.
- John Rice Loomis, later CPA No. 51 for New York.
- Anson O. Kittredge, later CPA No. 121 for New York.

We note that two of the above members, namely Charles Ezra Sprague and Henry Harney, were presidents of the Institute of Accounts before December 31, 1896, which is the stage we are analyzing. It is not surprising that when The New York School of Commerce, Accounts and Finance of the State University of New York, whose first dean was Charles Waldo Haskins, a member of the Institute of Accounts, opened its doors in 1900, a good part of the accounting professors of the new school came from the Institute of Accounts.

“The Institute continued into the 20<sup>th</sup> century and on March 15, 1940 its two surviving members merged it into the American Institute of Accountants”. (Webster, Norman E. 1954, p. 14).



## 4 Creation of the *American Association of Public Accountants (AAPA)* in 1896 in New York City

There are different opinions on the facts and dates of the events that led to the American Association of Public Accountants (AAPA) creation. This first professional organization grouped exclusively the then-called *public accountants*, later *certified public accountants*, which is why we will try, always obviously, on the basis of the existing written information, to elucidate as approximately as possible what happened.

The most reliable and knowledgeable documents on this subject are those contributed, among many others, by James T. Anyon (1925 (a)), George Wilkinson (1903 and 1927), Joseph E. Sterrett (1922), and Norman E. Webster (1954), which are the ones we will use to describe it.

“In 1886, Mr. Francis had several conferences at his office with Messrs. Heins, Vollum and Brown<sup>9</sup> looking to a plan of organization for their mutual protection and benefit. The plan was to organize a society and to seek a charter as an educational institution, under Pennsylvania law. The society was to be called “The Chartered Accountants’ Institute.”

The principal objects of the proposed society were: to elevate the standing and advance the interests of public accountants; and to direct attention to the advantages offered by, and the safeguards attending, the auditing and adjusting of books and accounts by persons thoroughly skilled and experienced as public accountants, and of established personal reputation.

It was in December, 1886, that Mr. Edwin Guthrie, F.C.A., of Manchester, who was visiting the city of New York on the business of his firm, accepted Mr. Heins’ invitation to visit Philadelphia, with the object of discussing the plan above referred to.

Mr. Heins introduced Mr. Guthrie to the late Mr. John W. Francis and together these three pioneers discussed the Philadelphia plan for a state society.

Mr. Guthrie strongly counselled Mr. Heins and Mr. Francis to use some other name than “chartered accountants”, because, he pointed out, it would likely conflict with the use of that title in this country by English and Scottish accountants, visiting the United States on professional business. This loomed as a serious objection, at that time, for the reason that the most important and responsible business entrusted to public accountants in those days was given to visiting British accountants. Further than this Mr. Guthrie, having strongly in mind the success achieved in England by the organization (in 1880) under a royal charter, of the Institute of Chartered Accountants in England and Wales, strongly counseled a nation-wide association, in preference to a state society.

Upon returning to New York Mr. Guthrie related to his partner (Mr. James Thornley Anyon) his experience at Philadelphia. It is remembered that he stated he had been able to find but two accountants in the City of Brotherly Love”. (Wilkinson, George. 1927, p. 162).

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9 All of them residents of Philadelphia, Pennsylvania. The State of Pennsylvania was one of those that germinated, in the period we are analyzing, a group of public accountants in love with their profession that contributed enormously to its advancement in the United States of America. Among them, John W. Francis; John Heins; Charles N. Vollum; Lawrence F. Brown; William M. Lybrand; William M. Heins and others. T. Edward Ross; Adam A. Ross; and Robert H. Montgomery, some of whom will be mentioned later.

Let us now follow the continuation of this history, consisting of the actions that Edwin Guthrie and James T. Anyon, both British and *chartered accountants*, decided to try to organize the profession of chartered accountants in the USA in a manner similar to that existing in Great Britain, both in Scotland and in England and Wales. At this point, it is relevant to know the state of the profession at that time in the United States of America, in Anyon's own words:

“A general survey of the situation, however, soon made the fact apparent that these conditions existed here only to a very limited extent, that public accounting was in its infancy and that it was little known or understood as a distinct profession.

As might be expected in such circumstances, my chief thought was to find out and become acquainted with the men then engaged in the profession, and to learn the kind and quality of work which they performed. With this object in view I sought all available sources from which I might obtain the required information. A careful examination of the city directories, a scrutiny of the advertisements in the financial papers, enquiries from the few business men with whom I had become acquainted, and finally a talk with the firm's attorneys in the hope of obtaining some enlightenment on the subject, soon satisfied me that there were very few persons engaged in the profession -no more in fact than could be counted on the fingers of one hand. There was a firm called Veysey & Veysey with a staff of two or three accountants, another practicing under the name of James Yalden & Co., a man named Louis M. Bergtheil, one named H. M. Tate and another who was certainly in the front rank, George H. Cherch. In Philadelphia the late John Heins seemed to be the only representative accountant in public practice. In Boston a man named Rodney McLoughlin played a corresponding part. These, with a few others whom I had not discovered at that time, appeared to be the sole exponents and representatives in this great country of a profession that in a comparatively few years was to become so important and essential to the needs of the business world.

The next step was to put myself in communication with all these men, which I proceeded to do either personally or by letter, pointing out to each one that I just came to this country from the other side to join them in the conduct of the profession of accounting, that I was sure they would like to see it better known, understood and recognized by the public, and that with a view to considering what might be done to accomplish this object I suggested that it might be desirable for them to meet myself and Mr. Guthrie on a certain appointed afternoon at the firm's office, 45 William street, to discuss the matter. One and all showed the greatest enthusiasm and interest in the proposal and agreed to attend the meeting.

On the afternoon in question the gentlemen invited came at the appointed time. There were about six or seven present including Mr. Heins who had purposely traveled from Philadelphia to attend. There were not all practicing accountants, but all evinced a decided interest in the subject of accounting. One of them was Colonel C.E.Sprague, president of the Dime savings bank, then at 31<sup>st</sup> street and Broadway, New York. Colonel Sprague was a lover of anything related to accounting and took a keen interest in the fortunes of the profession. Several others professed to be accountants but took no part in public practice. The situation seemed novel and at the same time interesting to those present, and a general air of expectancy was apparent.

After formal introductions to each other and to Mr. Guthrie and the passing of the usual compliments, the meeting got down to business. Mr. Guthrie was asked to take the chair and I to act as secretary of the meeting. Mr. Guthrie gladly complied and proceeded to address those present, his remarks being, in substance, as follows:

That it was a great pleasure to him to be able to visit this country on the affairs of his firm; that it was a great privilege to him thus to have this opportunity of meeting the accountants practicing in New York and other cities; that he was sorry, however, to find that the profession had not materially progressed in public recognition or in other ways since he was last here; that in England, on the contrary, the profession was on a very high plane; that it was recognized as one of the leading professions – firms, corporations, banks, railroads and other financial and commercial entities seeking the services of accountants in all phases of activity; that the efforts of practising accountants in this country should be directed toward bringing about a similar condition, and that he believed some similar institution or body to that then existing on the other side, viz., the Institute of Chartered Accountants in England and Wales, could be started

here under the regulations of which competent accountants could practice and be recognized by the public as fully qualified so to do.

It is needless to say that Mr. Guthrie's remarks were listened to with great attention, and all freely admitted that his address had given rise to new life and zest and a keener desire for greater things. The meeting then settled down to business and discussion, and finally a resolution was proposed by Mr. Heins and put to the meeting to the effect that the accountants present should form themselves into an association for the advancement and protection of the interests of the profession, and that the qualification for membership should be ability and fitness to practice in a public capacity.

This motion was seconded and it was further proposed (and I had the pleasure of making this proposal) that the name of this association should be the American Association of Public Accountants. This resolution was passed unanimously and thus came into existence in the month of December, 1886, the first organized body of professional accountants in the United States". (Anyon, James T. 1925 (a), p. 6).

Let us summarize very synthetically what was discussed and agreed upon at the meeting, according to Anyon:

1. This meeting was held on Wednesday, December 22nd, 1886. James T. Anyon does not indicate the concrete day of the month of December of that year, and, in another section of the same article, he specifically mentions that it was held on December 23 when the real date was the 22nd. This is a fact that is perfectly contrasted.
2. Anyon qualifies that the *public accounting* profession in the United States of America was in its infancy and was little known or understood as a distinct profession, which was true in those days.
3. The statement made by Anyon that at the time of the meeting of December 22, 1886, there existed in the United States of America only two auditing firms (Veysey & Veysey and James Yalden & Co. ) and a very limited number of sole practitioners (Louis M. Bergtheil; H. M. Tate; George H. Church in New York; John Heins in Philadelphia and Rodney McLoughlin in Boston), since sole practitioners existed but, for whatever reason, Anyon was unaware of their existence. For example, Anyon does not cite in his account John W. Francis of Philadelphia - who had been acting as a *public accountant* since 1869 - nor Charles N. Vollum, with whom his boss, Edwin Guthrie, had a meeting in Philadelphia along with John Heins, as discussed above.
4. Anyon states that the meeting was attended by six or seven people present, including Mr. Heins, who had traveled for the purpose from Philadelphia, and also Colonel Charles Ezra Sprague. He does not specifically cite the rest of the attendees with names and surnames. We consider this of vital importance because at that meeting, the American Association of Public Accountants (AAPA) was formally created -privately, of course, for the time being- and this is pure history, its members being the direct founders of that association. The fact that he does not mention them is probably because his article was published in 1925; therefore, 39 years had passed since that meeting and he no longer remembered the names of all the people who attended it.

The members who attended that meeting and who were the founders of the American Association of Public Accountants (AAPA), now the American Institute of Certified Public Accountants (AICPA), are listed in Chart 6:

**CHART 6. Founders of the American Association of Public Accountants (AAPA) at the meeting of December 22, 1886**

<b>1. Edwin Guthrie</b>	Born in London. Fellow Chartered Accountant (FCA) of the Institute of Chartered Accountants in England and Wales, of which he was a founding member in 1880. Partner of the British auditing firm Thomas, Wade, Guthrie & Co. with offices in London and Manchester and also of the American auditing firm. He was president in 1884-85 and 1898-99 of the Manchester Society of Chartered Accountants, of which he was a member of its Council until his death.
<b>2. James Thornley Anyon</b>	Born in England. Chartered Accountant (CA). Partner since January 1, 1887, of the American auditing firm Barrow, Wade, Guthrie & Co. He remained in the United States of America for the rest of his life. In 1896 he obtained the professional certificate of Certified Public Accountant (CPA) for the State of New York with the No. 31.
<b>3. Edward Henry Sewell</b>	Born in England. Actuary. Later he was a partner in the American auditing firm Barrow, Wade, Guthrie & Co. He returned to England in 1891.
<b>4. Charles Ezra Sprague</b>	Born in New York. Obtained his B.A. and M.A. degrees from Union College. President of the Union Dime Savings Bank in New York since 1892. Sole practitioner accountant. Former president of the Institute of Accounts of New York. In 1896 he obtained the professional certificate of Certified Public Accountant (CPA) for the State of New York with No. 11.
<b>5. William Henry Veysey</b>	Born in England. Worked as an accountant in his country. Sole practitioner as a public accountant in New York since 1866. Partner of the firm Veysey & Fabian and later partner of Veysey & Veysey. He was a member of the Institute of Accounts in New York.
<b>6. Walter Hugh Peyton Veysey</b>	Born in Jersey City, New Jersey. Son of the above. Worked with his father and became a partner in the firm of Veysey & Veysey. He was a member of the Institute of Accounts of New York. In 1901 he obtained the professional certificate of Certified Public Accountant (CPA) for the State of New York with No. 192.
<b>7. James Yalden</b>	Born in London. Worked in England with accountants. Created his partnership of public accountants in New York in 1876. Subsequently was a partner in his partnership with others under different names. In 1898 he obtained the professional certificate of Certified Public Accountant (CPA) for the State of New York with No. 138.
<b>8. William B. Jaudon</b>	He was a member of the Institute of Accounts of New York.
<b>9. J. Roderick Robertson</b>	Born in Scotland. Worked as an apprentice accountant in Great Britain. Sole practitioner as a public accountant.
<b>10. F. N. Hall</b>	The only information we have is that he was a sole practitioner as a public accountant.
<b>11. Robert Lethbridge Fabian</b>	Born in England. Former accountant. Partner of Veysey & Fabian, Accountants in New York and later a sole practitioner. He was the first American Association of Public Accountants (AAPA) president.
<b>12. John Heins</b>	Born in Philadelphia. He was a sole practitioner as a public accountant and later partner of his firm with others. He was vice president and later president of the American Association of Public Accountants (AAPA). In 1899 he was awarded the professional certificate of Certified Public Accountant (CPA) for the State of Pennsylvania with No. 5.

↑ Source: Various documents.

Immediately after the creation of the American Association of Public Accountants (AAPA), its founders set to work on its development. The first thing they did was to set up an organizing committee to draft its operating rules and bylaws. This committee was composed of the following five members: Edwin Guthrie, Robert L. Fabian, James Yalden, James T. Anyon, and William H. Veysey, agreeing to meet on Wednesday, December 29, 1886. Edwin Guthrie prepared a draft which he presented at the meeting on December 29, 1886, which was discussed and corrected as deemed advisable. They agreed to submit it to a Annual Meeting of the Partners Board of the Association to be held on January 17, 1887.

The aforementioned annual meeting Partners Board discussed, corrected and finally approved the draft bylaws, except for minor changes that the Council could introduce in terms of improving the wording, and elected the first Council of the Association, composed of 16 members, as detailed in Chart 7.

**CHART 7. First Council of the American Association of Public Accountants (AAPA) elected at the annual meeting of January 17, 1887**

1.	Robert L. Fabian	(British)	President
2.	John Heins	(American)	Vicepresident
3.	James T. Anyon	(British)	Secretary
4.	William H. Veysey	(British)	Treasurer
5.	Walter H.P. Veysey	(American)	Board member
6.	James Yalden	(British)	Board member
7.	Charles H. W. Sibley	Se desconoce	Board member
8.	Edward H. Sewell	(British)	Board member
9.	Mark C. Mirick	(American)	Board member
10.	Rodney McLaughlin	(American)	Board member
11.	George H. Church	(American)	Board member
12.	Louis M. Bergtheil	(British)	Board member
13.	William M. Brooks	(British)	Board member
14.	William J. Calhoun	(British)	Board member
15.	James Cox	(Irish)	Board member
16.	John W. Francis	(American)	Board member

↑ Source: "The American Association of Public Accountants: Its First Twenty Years 1886-1906". Norman E. Webster, 1954, p. 33.

Then, efforts were made by the Council to increase the number of members of the Association, a very difficult issue given that, being a private association of a profession not yet officially recognized and regulated, the efforts made unfortunately fell on deaf ears, and it was very difficult to find people who wanted to join as members or who met the requirements for membership.

Chart 8 shows the number of members of the American Association of Public Accountants (AAPA) from the time of its creation until 1896, which is the period analyzed in this book.

**CHART 8. Membership of the American Association of Public Accountants (AAPA) from 1887 to 1897**

Date	Fellows	Associates
January 1st 1887	26	-
January 1st 1888	30	7
January 1st 1889	25	7
January 1st 1890	25	6
January 1st 1891	25	6
January 1st 1892	26	6
January 1st 1893	42	13
January 1st 1894	48	17
January 1st 1895	33	9
January 1st 1896	27	5
January 1st 1897	61	11

↑ Source: "The American Association of Public Accountants: Its First Twenty Years 1886-1906". Norman E. Webster, 1954 p. 32.

The second important issue to be addressed was to legalize the newly created AAPA, a matter that was obviously relevant and needed to be done. The certificate of incorporation or certificate of foundation or constitution was executed on August 20, 1887 and officially registered on September 20, 1887. Because of its historical importance, given that it represented the legalization of this association according to the laws of the State of New York, we reproduce it verbatim in Chart 9.

**CHART 9. Certificate of Incorporation of the American Association of Public Accountants (AAPA), dated August 20, 1887**

**State of New York  
City and county of New York**

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Notice is hereby given that we:

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Robert L. Fabian, of the City of New York  
 James Yalden, of the City of New York  
 Wm. Calhoun, of the City of New York  
 Walter H.P. Veysey, of the City of New York  
 Mark C. Mirick, of the City of New York  
 Charles H. W. Sibley, of the City of New York  
 Rodney McLaughlin, of Boston, Mass  
 John Heins, of Philadelphia, Penn

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being persons of full age and citizens of the United States and the majority being citizens of the State of New York, desiring to associate for social and beneficial purposes, do hereby certify in writing as follows:



First: That the name or title by which said partnership shall be legally known is "The American Association of Public Accountants".

Second: The particular business and object is that the most competent public accountants practicing in the United States of America associate in a society or guild for the mutual benefit and advantage of the most competent public accountants practicing in the United States; and through this association to elevate the profession of auditing in general, and to promote the efficiency and usefulness of the members thereof, by enforcing strict rules of conduct as a condition of membership, and to establish a high standard of professional attainment by general education and knowledge; and to manage such business as may be necessary and to promote the organization and conduct of an association for the foregoing purposes.

Third: The number of directors, officers or managers to manage the association shall be eight, and the names of the directors, officers or managers for the first year of its existence shall be as follows: Robert L. Fabian, James Yalden, Wm. Calhoun, Walter H.P. Veysey, Mark C. Mirick, Charles H. W. Sibley, Rodney McLaughlin and John Heins.

Fourth: The district in which the principal office of such company or association shall be located is in the City, County and State of New York.

In Witness whereof we have hereunto set our hand this twentieth day of August in the year one thousand eight hundred and eighty-seven.

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(Signed) J. Yalden,

John Heins,

Walter H.P. Veysey,

M. C. Mirick,

C. H. W. Sibley,

Robert. L. Fabian,

Wm. Calhoun,

Rodney McLaughlin.

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↑ Source: "History of Public Accounting in the United States." James Don Edwards. 2021. Online book.

Readers can compare the contents of the certificate of incorporation of the AAPA with those of the Royal Charter of May 11, 1880, creating the Institute of Chartered Accountants in England and Wales (ICAEW) in Chart 3, and draw their conclusions.

At the time of its legalization and definitive registration in September 1887, the American Association of Public Accountants (AAPA) had 31 members, of which 24 were fellows and 7 associates, with the right to use after their names the initials F.A.A. or A.A.A. As can be seen, fellows and associates were a copy of the British *chartered accountants'* organizations described above.

Fellows were those members of the Association who had first joined and those who had subscribed to its constitution and by-laws, plus those who had practiced as *public accountants* for three years before joining the Association. Associates were those members who had passed the examination to join the Association.

For comparative and merely informative purposes, The Society of Accountants in Edinburgh had 61 members when it applied for a Royal Charter in May 1854, The Institute of Accountants and Actuaries in Glasgow had 49 members when it applied for the same and when The Institute of Chartered Accountants in England and Wales obtained a Royal Charter on

11 May 1880, its membership stood at 587; in the year 1881 it increased to 1,025, in 1891 there were 1,766, in 1901 there were 2,776, and in 1904 there were 3,177 (Brown, Richard. 1968. pp. 208 and 237). As we have already mentioned, Great Britain was the first country in the world to organize the profession of statutory auditor and it did so because it must be said, it was fortunate that its mercantile legislation made the way extraordinarily smooth, a fact that did not occur in the USA.

In the presentation of the certificate of incorporation of the AAPA) on August 20, 1887, James T. Anyon and William H. Veysey, (father of Walter H.P. Veysey), persons who had participated in its creation the previous year on December 22, 1886, both Anyon and Veysey could not do so because it was necessary for them to have American citizenship, and they had British citizenship.

After its legalization in the State of New York and its public registration on September 20, 1887, the AAPA became the first American professional organization dedicated to auditing accounts (currently the American Institute of Certified Public Accountants (AICPA)), with the aim of becoming a nationwide corporation in the USA.

After its legalization, a Partners Board of the Association's members was held on February 8, 1888, at which its bylaws were approved, followed by the election of a new Council.

## 5 Creation in 1892 of the *New York School of Accounts* within the State University of New York

The difficulties in increasing the number of members of the American Association of Public Accountants (AAPA) in the first years of its existence did not discourage the enthusiasm and the will of its Council to advance in multiple facets of this recent professional corporation.

One of the topics that generated illusion, enthusiasm, and, why not to say it, also necessity, was the convenience of getting in contact with a public university to be able to educate in the same one the future young people who enter the profession of public accountant. They thought that it was necessary and convenient that the future public accountants possessed a university degree that would publicly accredit the possession of the knowledge required to practice this profession.

The issue of the education that future public accountants should possess was perfectly reflected in one of the objectives pursued by the American Association of Public Accountants (AAPA) in its Certificate of Incorporation approved on August 20, 1887 (Chart 9), the second section of which textually reflected this objective.

### 1 First attempt

The Council of the American Association of Public Accountants (AAPA), at its meeting of January 9, 1892, appointed a committee in charge of trying to obtain a university degree to train future *public accountants*, formed by Thomas Bagot (British), Henry Rigsdale McDonald Cook (British), James Yalden (British), William Trenholm (American) and Walter Hugh Peyton Veysey (American).

The creation of this committee was a consequence of the will of the American Association of Public Accountants (AAPA) to try to achieve higher education, that is, the title of bachelor or university graduate through the creation of an accounting school for young future members of the profession of *public accountant*, to achieve public recognition and a high level of knowledge that would allow them to carry out quality work.

To this end, Cook, AAPA vice-president and chairman of the aforementioned committee, was delegated to contact the Board of Regents of the State University of New York, a public university founded in 1844, located in Albany, capital of the State of New York, 233 km. northwest of that city, to find out the procedure to be followed in order to carry it out.

Cook went to the aforementioned university to find out the procedure to be followed in order to create a university degree in accounting and auditing studies. There he was thoroughly informed of everything that had to be provided for this purpose, namely: the place where these studies were to be taught, the syllabus of the subjects and their con-

tent, the names of the professors who were to teach them, the people and institutions that supported this proposal, the economic aspects of the proposal, etc., in other words, an infinite number of aspects and subjects that were needed for the application to be first studied and, subsequently, approved or not by the Board of Regents of the aforementioned University.

Once the required information was obtained, Cook and his team immediately set to work to provide all the necessary documentation so that the application could be approved and the requested studies delivered as soon as possible. No effort was spared to make it a success, as evidenced, for example, by the fact that they sent a letter to 1,500 individuals, businesses and institutions in New York State asking them to support their application to create a university accounting and auditing program within the State University of New York. “Cook stated that he had received within a week 262 replies bearing the signatures of important and influential personages”. (Webster, Norman E. 1954, p. 170), thus demonstrating that the official application they would submit had the support of many individuals in civil society and important businesses and institutions in New York State.

When all this was ready, the AAPA presented the application with all the information they considered necessary for it to be approved and, subsequently, they learned that the Board of Regents of the university would meet on June 8, 1892 to analyze and decide on the application. From that moment on, the AAPA deployed a number of actions to try to get the application approved.

One of them was to decide the delegation of people who would attend the meeting on the day of the meeting, who would speak to support and clarify any aspect of the application and the topics of their presentations. On the said day the delegation was about 20 people, one of them being Charles Ezra Sprague, president of the Union Dime Savings Bank, who had been president of the Institute of Accounts in New York and one of the founders of the AAPA.

Unfortunately, and despite all the efforts, enthusiasm and strategy deployed by AAPA, the State University of New York Board of Regents did not approve the application submitted.

Cook subsequently commented on two reasons that he believed might explain the decision made by the university's Board of Regents:

“The construction of our Board of Trustees for the proposed institution seemed in the eyes of the powers that be to partake largely of the element of monopoly; that is for the benefit of our immediate members and not for the purpose of raising the plane of the profession generally.

The fact of the Association at that time not possessing suitable accommodations for the conducting of the school or college weighted somewhat against us”. (Webster, Norman E. 1954, p. 176).

## 2 Second attempt

The fact that the Board of Regents of the State University of New York stated at the time that it was not prepared to support the proposal presented, did not discourage the AAPA Council at all, as evidenced by the fact that shortly afterwards they decided to take action again by reviewing in detail the application presented, in order to improve it in all necessary points and aspects. This task was again assigned to Cook, its vice president, since everyone was aware that he had previously put great enthusiasm body and soul to achieve the objective pursued, even though, in the end, the application initially submitted had not been approved.

On December 8, 1892, Cook presented at a special meeting of the AAPA the new request to ask the Board of Regents of the State University of New York for a provisional authorization or certificate for the creation of a Professional School of Accounts. It is especially important to note that in the first attempt, authorization was requested for the creation of a college, not a university school, whose duration of studies was shorter, which is what is now being requested in the second attempt.

The new application to the Board of Regents of the State University of New York was dated December 8, 1892, and included, in very concise terms, the following points:

1. That it would be to the public benefit to establish a professional school for accountants, under the jurisdiction of your honorable board, and the auspices of the American Association of Public Accountants, and guidance of members of the profession.
2. That for the purposes of founding a professional school, there has been subscribed for its guarantee of support and maintenance, a sum amounting to five thousand dollars (\$5,000.00) divided in two thousand five hundred dollars (\$2,500) per annum for the term of two years from the date of granting of a provisional charter in order to provide any deficit which may arise by reason of an excess of expenses over income.
3. For this professional school of the State University of New York, known as The New York School of Accounts, the American Association of Public Accountants (AAPA) appoints as the first trustees for a period of two years from the date of the establishment of the school, the following persons:
  - James Yalden. Public Accountant. President of AAPA.
  - John L. N. Hunt. Attorney at Law. Chairman, New York City Board of Education.
  - Henry R. M. Cook. Public Accountant. Vice President, AAPA.
  - F. B. Thurber. President, The Grocery and Provision House, Thurber, Whyland Co.
  - Louis M. Bergtheil. Public Accountant. Chartered Accountant in Great Britain.
  - George H. Church. Public Accountant. Director of The Third National Bank of the city of New York.
  - Thomas Bagot. Public Accountant.
  - Lucius M. Stanton. Of the firm of Stanton Brothers & Co. of New York City.
  - Richard F. Stevens. Public Accountant.
  - Rufus G. Beardslee. Attorney at Law in the City of New York.
  - Richard M. Chapman. Public Accountant.
  - General John B. Woodward. President of The Third National Bank of the City of New York.
4. That suitable accommodations have been leased in a central section of New York, namely No. 122 West 23<sup>rd</sup> Street.
5. That all necessary furniture, appurtenances, books and supplies shall be provided within a reasonable time from the granting of the provisional charter.
6. That it is intended that a full course of instruction shall extend over a period of two years, viz., forty weeks containing one thousand hours, in each year.
7. A provisional charter is now asked to facilitate the acquirement of additional premises for said professional school and for the organization therein for two years.
8. That after the expiration of the aforesaid provisional period of two years, providing that the methods of instruction and usefulness of the aforesaid professional school has been successfully demonstrated to the satisfaction and approval of your honorable Board, the American Association will petition that the provisional charter be made absolute, and further guarantees to endow said institution with the sum of twenty thousand dollars (\$20,000) wherewith to acquire a suitable site and building in which to continue permanently the aforesaid professional school.
9. That it is the intention of the American Association of Public Accountants to make The New York School of Accounts self-supporting, to which end it is proposed to charge a fee, for instruction, of one hundred dollars (\$100) per annum which it is believed will be sufficient and ample to pay all expenses relative thereto.
10. That the American Association of Public Accountants has made careful estimate of the probable expenses of said school of accounts for the two years embraced in the provisional charter now asked for, and is of the opinion that upon liberal calculation they should not exceed \$ 8,000 to \$9,000 per annum, including reasonable remuneration to the professional

instructors. That the amount of \$5,000 subscribed would be used for the purpose of furnishing and fitting up said professional school and also for the establishment of a library in connection therewith. That from inquiries made and applications received from residents of this and other States, the American Association of Public Accountants feels justified in believing and estimating that the said school would open with a minimum number of one hundred students, which, taken at the aforesaid annual fee of \$100 per student, predicts a minimum income of \$10,000 per annum". (Webster, Norman E. 1954, p. 179).

The following information was attached to the request:

1. Copy of the certificate of incorporation of the American Association of Public Accountants dated August 20, 1887 (Chart 9).
2. Signed resolution of the offered guarantee of \$5,000 from the American Association of Public Accountants, dated December 8, 1892 (item 2 of the above application).
3. Guarantee given by several persons to cover any monetary deficit existing at The New York School of Accounts which might arise from an excess of expenses over income, in the event that the American Association of Public Accountants should fail to cover such deficit, during the 2-year period of the duration of the provisional charter, in the amount of \$5,000, signed December 8, 1892. Those who signed it were:

- James Yalden.
- Henry R. M. Cook.
- Louis M. Bergtheil.
- Thomas Bagot.
- Richard M. Chapman.
- William M. Brooks.
- Henry Allen Briggs.
- Louis Yalden.
- Charles Both.
- Frank Broaker.
- Charles Gray.

4. Detail of the sections to be taught in the syllabus:

*Bookkeeping and Accounting.*

- Section 1. Science of double entry.
- Section 2. Bookkeeping books of commercial entities.
- Section 3. Accounting in different firms
- Section 4. Accounting in other organizations.
- Section 5. Public accounting.

*Auditing*

- Section 6. Examination of accounting.
- Section 7. Miscellaneous.

*Legislation*

- Section 8. Principles of commercial, business, banking, judicial and other legislation.

During the first year of studies of 1,000 teaching hours, the hours of each of the subjects to be taught and the class schedules were planned, ranging from Monday to Friday from 9:30 a.m. to 12:00 p.m. and from 1:00 p.m. to 3:30 p.m., i.e., a total of 5 teaching hours each of the five working days of the week (25 teaching hours per week).

The syllabus for the second year was not established, but it was indicated that part of the subjects taught in the first year should be changed and replaced by auditing, research, statistics, and practical reviews of previous studies to prepare the students for the final exam.

On December 14, 1892, the Board of Regents of The State University of New York approved the application and issued the provisional charter or authorization of The New York School of Accounts. Since it is a historical document, it is detailed in Chart 10.

**CHART 10. Provisional charter granted for the establishment of The New York School of Accounts in the year 1892**

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Whereas a petition for incorporation as an institution of the University has been duly received, and

Whereas official inspection shows that partial provision has been made for buildings, furniture, equipment and for proper maintenance, and that all other prescribed requirements will be duly met.

Therefore, being satisfied that public interests will be promoted by such incorporation, the Regents by virtue of the authority conferred on them by law, hereby incorporate James Yalden, F.B. Thurber, Thomas Bagot, Rufus G. Beardslee, John L. N. Hunt, Louis M. Bergtheil, Lucius M. Stanton, Richard F. Stevens, John B. Woodward and their successors in office under the corporate name of New York School of Accounts with all powers, privileges and duties, and subject to all limitations and restrictions prescribed for such corporations by law or by the ordinances of the University of the State of New York. The first trustees of said corporation shall be provisionally the above named twelve original incorporators

If all requirements prescribed by law or by the University ordinances be fully met within two years, then this charter shall be made permanent, but otherwise on December 14, 1894 it shall terminate and become void and shall be surrendered to the Regents.

It is also provided that no diplomas, certificates of graduation, or other credentials shall be granted except on such conditions as are from time to time certified under seal of the University as being fully approved by the Regents.

IN WITNESS WHEREOF the Regents grant this charter no. 680, under seal of the University at the capital in Albany, December 14, 1892. Anson Gould Upson Chancellor Melvil Dewey Secretary

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↑ Source: "The American Association of Public Accountants: Its First Twenty Years 1886-1906". Norman E. Webster, 1954, p.190.

Taking into account that the Board of Regents of The State University of New York approved the certificate or provisional authorization for the creation of The New York School of Accounts on December 14, 1892, it was evident that the classes of the first course would begin next August or September 1893, given that on that date it was not feasible to start them immediately in a course that would begin in a normal period.

And it was not because it was first necessary to adapt the facilities of the building where the classes were to be taught; to buy the appropriate furniture and equipment; to look for and hire the professors who were to teach the different subjects (all of them had to be compulsorily *public accountants*, with the exception of the professor of commercial law); to draw up the admission requirements for future students; to define the teaching methods; to create a library in the school itself; to fix the tuition fees; to determine the number of students to be admitted; determine the timetable of teaching schedules for the first academic year 1893-1894; type of examinations to be held; prepare a brochure explaining the creation of the said

professional school, its advantages, location of the teaching, tuition fees, entrance requirements, name of the secretary (Thomas Bagot) and contact address so that any interested person could contact him, etc. , and another issue that was to be of vital importance, which was to agree on the publicity that should be given to the creation of such a new Professional School in order to attract interested students. Therefore, there was a huge amount of work to be done in order to achieve its success and obtain the maximum number of students in the first academic year.

On the part of the trustees and also on the part of the AAPA, every effort was made to try to make The New York School of Accountants a success, and it should be noted that they put great enthusiasm into the effort to achieve it.

However, there are times in life when things do not work out the way you would like them to, and this was the case. In the 10th item of the application submitted by the AAPA to the Board of Regents of the State University of New York, it was estimated that the school should open with a minimum number of 100 students. Well, it opened with only 7 students, who were the only ones who attended the first course of the academic year 1893-1894, of 1,000 hours of duration.

In our opinion, the two main reasons that justified the reduced number of students enrolled were two, namely: first, as a consequence of the financial Panic of May 1893 there was a very strong depression or recession in the American economy -in 1894 the number of unemployed people in the country as a result of this severe financial crisis was close to 4.000.000 people. This obviously had a very negative effect on the admission of students to this university school and, secondly, probably the error of judgment of having attempted to create a professional university school before the enactment of the law recognizing and regulating the profession of *public accountant* in the State of New York.

At the end of the first course with such a meager number of students, The New York School of Accounts closed its doors, because its economic viability was nil and, obviously, under such circumstances nothing else could be done. Therefore, the entire two-year teaching process to obtain the corresponding degree could not be completed and thus ended the first effort and attempt to provide an organized higher education for young prospective members who wanted to enter the profession of public accountant. A pity, and also a great disappointment.

From then on, the American Association of Public Accountants (AAPA) no longer attempted to organize any other school or faculty to train young future members who wanted to enter the profession.

However, anticipating what we will explain in detail in a later book, because at this time it falls outside the scope of the period we are examining, we want to place special emphasis on the fact that in later years, and already with the law passed in New York State in 1896 that recognized and regulated the profession of *certified public accountant* (auditor of accounts in Spain), some *certified public accountants* (CPAs), at their own risk, did not give up on their idea and determination to try to reach an agreement with a public university to create university studies to teach accounting and auditing in order to adequately train young future auditors.

Indeed, on November 13, 1899, Henry R. M. Cook returned with new bristles. Cook returned to the charge with new energy with the same objective as before, for at a meeting of the New York State Society of Certified Public Accountants (NYSSCPA) -which had been created in 1897 after the enactment of the law approving the profession of public accountant in the



State of New York-, he introduced a motion requesting the president of the State Society, Charles Waldo Haskins, to contact a university located in New York City to try to create a college or university school of accounting and auditing.

In 1900 this goal was achieved, after the corresponding efforts and strategy, with the creation of The School of Commerce, Accounts and Finance at the New York State University, the first university school in the United States of America with continuity that dedicated a significant part of its teaching to accounting and auditing, in addition, obviously, to subjects of commerce and finance, which was a total success from the very beginning. In fact, in the first course (1900-1901) the number of students enrolled was 60, in the course 1905-1906 there were 441, in the course 1910-1911 there were 1,198 and in the course 1913-1914 there were 2,190 (Gitlow, Abraham L. 1995, p. 7), that is to say, an unqualified success. The degree was a two-year undergraduate degree called Bachelor of Commercial Science (BCS).

In addition, Charles Waldo Haskins -one of the two founders of the American auditing firm Haskins & Sells, as we will see later-, *Certified Public Accountant* (CPA) No. 6 for the State of New York, who, among others, was one of the promoters of the creation of the School, a man with a great personality, prestige, preparation, contacts and vision of the future, was appointed dean of the school. It must be said that Haskins was, above all, a very charismatic man, so the creation of the School represented a double success for the profession of *certified public accountants* (CPAs).

Consequently, the first failure to create university studies for the training of future public accountants in previous years through The New York School of Accounts (1893-1894), was completely overcome with the creation of this new university school, also for two academic years.

A new era was born, in which the recognition and regulation of the profession of certified public accountant (CPA) in 1896 in the State of New York, in our opinion, had been really decisive in achieving it. There were also other factors that helped to achieve it, but this subject, as a politician used to say years ago when asked a question he did not want to answer, "now it's not the time", but we promise that we will tackle it in the future.



## 6 Enactment of a law in the State of New York in 1896 recognizing and regulating the profession of *Certified Public Accountant (CPA)*

After the failure of The New York School of Accounts, whose teaching lasted only one year, the activities of the American Association of Public Accountants (AAPA) were focused on trying to increase the number of its members, revising its statutes, establishing contacts with bankers and law firms to make known the usefulness and characteristics of its work.

The next aim was to achieve legal recognition and regulation of a license or professional certificate that would identify the work carried out by the then-so-called *public accountants* so that they could practice it exclusively.

There were two institutions interested in achieving such recognition in the State of New York: The Institute of Accounts and The American Association of Public Accountants (AAPA), which were the ones that did so, given that the *public accountants*, individually or collectively, who were not registered and did not belong to either of the two previous organizations, never made a move in this regard.

There are different opinions about the name of the person or persons who decided to activate the presentation of a bill to try to legalize the profession of *public accountant* in the State of New York, so we will avoid entering into useless debates and discussions on this subject, to simply talk about facts, which is what is important, although, obviously, we will mention the names of those who, directly or indirectly, were the protagonists of such an event.

### 1 First attempt

In the months of February and March 1895, two bills were introduced in the New York State Capitol in Albany, its capital, which sought to recognize and regulate a license or professional certificate for *public accountants*, the first, as to date, presented by the American Association of Public Accountants (AAPA) and the second, by The Institute of Accounts.

#### *Bills submitted*

1. The AAPA, through Francis Gottsberger, chairman of its Committee on Legislation, sent to Senator Daniel Bradley the draft of its proposed law, which he presented to the New York State Senate on February 20, 1895 under No. 436. Bradley introduced it in the New York State Senate on February 20, 1895 as No. 436. It appears that the draft of this bill was prepared by Richard F. Stevens (AAPA President) and Richard Marvin Chapman (AAPA Treasurer). Others claim that it was drafted by Francis Gottsberger, so we will never know for sure the person or persons who actually

drafted it, because the drafting is one thing and the presentation in the Senate is quite another.

2. The Institute of Accounts delivered the draft of its proposed law to Congressman Howard Payson Wilds -a personal friend of Charles Ezra Sprague-, who presented it to the House of Representatives of the State of New York on March 6, 1895 under No. 1005, being referred to the Committee on General Laws. In this case there is no doubt that the proposal was prepared by Charles Ezra Sprague, with the approval of the president and the legal counsel of The Institute of Accounts. It should be noted that Charles Ezra Sprague had been president of the Institute of Accounts and was also a member of the AAPA but, in this case, he was acting on behalf of The Institute of Accountants.

#### *Synthesis of the two bills and their differences*

It is beyond the scope of this book to detail the textual content of the two bills presented, so we will only comment in synthetic and necessarily schematic terms on the main points of their content.

The bill submitted by AAPA included the following:

- a. A person who wishes to act as a *public accountant* must possess a license issued by the Board of Regents of the State University of New York.
- b. Any person who has been continuously practicing as a *public accountant* for five years may apply to the Board of Regents of the State University of New York for a license. However, the Board of Regents shall have the discretion in the case of *public accountants* who are currently practicing, but who have not completed the 5-year period to issue licenses to them, provided that it finds the applicants to be fit and proper persons.
- c. Any person who, hereafter, desires to be licensed as a *public accountant* shall pass a two-year preparation at a Technical School of Accountancy approved by the Board of Regents of the State University of New York. In addition, he/she must provide satisfactory evidence that he/she has performed good and acceptable service in the office of a *public accountant* for at least three years. In addition, he/she shall provide satisfactory evidence that he has performed good and acceptable service in the office of a *public accountant* for at least three years.
- d. No license shall be furnished to any person who is not a citizen of the United States of America.

The bill submitted by the Institute of Accounts included the following:

- a. Any citizen of the United States, or a person residing or doing business in the State of New York, who is over twenty-one years of age and of good moral character, who has received from the Board of Regents of The State University of New York a certificate of his qualification to practice as a *public expert accountant*, shall be called and known as a "*Certified Public Accountant*," and may use at the end of his name the words CPA.
- b. The Board of Regents of The State University of New York shall prepare rules for the examination of persons applying for certificates under this law by appointing a Board

of Examiners which shall be composed solely of *Certified Public Accountants*. The Board of Examiners may revoke such certificates if sufficient cause exists, after notice to the holder thereof and an opportunity to be heard.

- c. The Board of Regents of The State University of New York may waive the taking of the examination in its discretion in the case of those persons who at the time of the enactment of this act have been practicing for more than one year on their own account as a public accountant in this state, and apply in writing for a certificate one year after the enactment of this act.

A comparison of the two bills presented above shows, in our opinion, that the bill presented by The Institute of Accounts is much clearer, more explicit and logical than that of the AAPA.

Several aspects to comment on:

1. The AAPA proposed to provide a license to work as a *public accountant* only to U.S. citizens. This meant setting up gates to the field and trying to eliminate from the market those British *chartered accountants* who were resident in this country and who had been working here for years and who, with their knowledge, work techniques and ethics, had contributed significantly to the knowledge and development of auditing of accounts in the U.S. It was, in our opinion, an unfair proposal and a total waste of time.
2. The name "*certified public accountant*" was the result of an internal debate in the Institute of Accounts, in which the name of *chartered accountant* proposed by some of its members was rejected from the outset, in order not to copy the identical name existing in Great Britain and, given that in the USA up to that time they were called *public accountants*, certified was simply added to the beginning, which was a good decision.
3. The proposal that the Board of Regents of the State University of New York should be in charge of drawing up the standards to which the examinations to obtain the professional certificate of *certified public accountant* had to adhere, which is what the Institute of Accounts proposed, in addition to appointing a Board of Examiners to design and evaluate the examinations to be passed by the candidates to obtain it and to decide their evaluation, whose members had to be necessarily *certified public accountants*, was undoubtedly a wise and sensible idea.
4. The proposal of the AAPA that, except for the initial moment, any person wishing to obtain a license as a *public accountant* should pass a two-year training in a Technical School of Accounting authorized by the Board of Regents of The State University of New York and, additionally, should prove that he had performed good and acceptable service in the office of a *public accountant* for at least three years was also, in our opinion, a very good idea that we wish to highlight.

It should be noted that the idea that the Board of Regents of The State University of New York should be the body chosen to monitor the issue was the recommendation that Melvil Dewey, secretary of the Board of Regents, made to his friend Charles Ezra Sprague, who was acting on behalf of The Institute of Accounts. He also made it to the AAPA representatives when they came to visit him to ask his opinion on the matter.

The reason was simple: the University was accustomed to conducting examinations and therefore had the necessary administration and facilities to conduct them smoothly, and this would give them a rigorous, high-level educational character, which was another positive factor to be taken into account.

“The original draft called for the appointment of a board of examiners by the Governor, but it was deemed inadvisable to add another political board”. (Wilkinson, George. 1903, p. 3).

### *Final Outcome*

In view of the fact that the submission of two bills to attempt to accomplish the same thing could be conflicting and inadequate, Francis Gottsberger - chairman of the AAPA Committee on Legislation - and William Sanders Davis, also of the AAPA, on March 11, 1895 sent a letter to all New York *public accountants* known to them or whose names appeared in the New York City directory, inviting them to attend an urgent meeting to be held on March 13, 1895, at an agreed time at a certain place in New York City, to discuss the two bills presented, to reach a consensus, if possible, on the differences between the two, and to decide accordingly. Despite the haste with which the meeting was called, 45 people attended, which can certainly be considered a success.

Richard F. Stevens, president of the AAPA, was elected chairman of the meeting, immediately giving the floor to Francis Gottsberger, who explained to all present that two bills had been presented at the New York State Capitol in Albany to request the recognition and regulation of the profession of *public accountant*, reading verbatim to those present the two bills presented, so that everyone would know their contents and be aware of their differences.

Several of those present presented their ideas and made reflections on various sections of the two bills presented, until, at a certain point, Richard F. Stevens, president of the meeting, proposed that a special committee be created among those present, called the Committee of 14, to study and analyze the subject in detail and decide what was most appropriate, given that it was not a question of making a definitive decision at that moment, in haste and without the corresponding reflection, which had no logic at all.

On March 16, 1895, the aforementioned Committee of 14 met and agreed, among other points, to appoint a subcommittee of 5 persons to go to Albany, capital of the State of New York, and meet with Melvil Dewey, secretary of the Board of Regents of The University of the State of New York, to learn his opinion on the matter.

The aforesaid subcommittee of 5 visited Albany, subsequently reporting as follows:

“We visited Albany on March last xx. We met the Committee (of Assembly) in company with Mr. Dewey, Secretary of the Regents, Mr. E. G. Whitaker, our attorney, and Mr. John E. Hourigan, practicing public accountant of Albany; addresses were made by Mr. Dewey, Mr. Whitaker and members of your committee, advocating the passage of the bill; objection was made to Section 4 of the bill by several of Assembly Committee. After our return from Albany, Mr. Hourigan sent word to several of the Committee, informing them as to the progress of the bill; Mr. Wilds, who had introduced the bill in the Assembly for some reason was apparently opposed to its passage and would do nothing towards having it reported to the House”. (Webster, Norman E. 1954, p. 227).

Finally, the two parties involved - The Institute of Accounts and the AAPA - agreed and requested that the only bill to be accepted and considered by the New York State Capitol be the one introduced by The Institute of Accounts in Congress, so the bill introduced in the

Senate by the AAPA should be shelved. But the mess was already made and, finally, on May 7, 1895, a vote was taken in the Senate, with the result of 10 affirmative votes and 12 negative votes, so that the bill presented was rejected.

However, in the midst of this process there was also a political problem, unrelated to all the efforts of the two parties pursuing the enactment of a new law that would defend their interests and at the same time be beneficial to society in general, which was as follows:

“Politics at Work. However, this initial drive ended in failure because of the lack of support of Senator Thomas C. Platt, leader of the conservative wing of the state’s Republican Party that had won control of the legislature in a landslide victory in 1884. “Boss” Platt’s power depended on his ability to extend patronage to his loyal supporters and this drew him into opposition to some of the profession’s leaders and their political allies. To increase the range of such opportunities the senator tried to broaden the scope of state governmental activities within New York City, long a bastion of his opponents, both in the Democratic Party and in the liberal wing of the Republican Party. Haskins, for example, served as an advisor to the fusion administration of Mayor William L. Strong in studying the economic feasibility of merging Manhattan with what then was the City of Brooklyn, and John R. Loomis, a prominent accountant who later served as president of the AAPA, was also closely associated with Platt’s old rival Senator Joseph H. Choate, a leader in the liberal wing of the Republican Party. In addition, the Republican controlled legislature began an investigation of Melvil Dewey for alleged graft and malfeasance in office. If successful, this latter attack would have opened additional patronage opportunities for the Platt machine at the state library and on the Regents’ staff”. (Miranti, Paul J. CPA Journal Online. 1996) Alas, politics!

## 2 Second Attempt

The efforts of the two professional organizations located in New York City - The AAPA and The Institute of Accounts - in 1885 to attempt to get a law enacted in that State to recognize and regulate the profession of *public accountant* failed on May 7, 1895 with the negative vote of the New York State Senate.

It was time to reflect on what had not been done properly and what had prevented them from achieving what they had planned, and that is exactly what the two professional organizations mentioned above did, each of them agreeing that they should join forces and work together to achieve it, which is what they should have done from the very first moment.

For example, the AAPA minutes mentioned the following:

“It was Resolved That the Committee on Legislation be instructed to confer with the officials of the Institute of Accounts and to prepare a bill to be introduced to the next Legislature to obtain legal recognition of the profession and to send a copy to each member of the Legislature”. (Webster, Norman E. 1954, p. 229).

Another minute mentions verbatim the following:

“At their November 1895, meeting of the American Association of Public Accountants appointed a committee consisting of Frank Broaker, Chairman; James Yalden and William Sanders Davies to renew the effort to secure the passage of a C.P.A. Bill”. (Webster, Norman E. 1954, p. 233).

From this point on, the machinery was set in motion to achieve what had been agreed upon, initiating a series of actions aimed at unifying the efforts of both organizations. One of the first steps was, obviously, to contact a Congressman and a Senator from the State of New

York, who were to be the persons who would accept the challenge of promoting the enactment of the new law requested. This work was entrusted by AAPA to Frank Broaker and Francis Gottsberger, who contacted Congressman Henry Marshall of Brooklyn and Senator Albert A. Wray, also of Brooklyn, who accepted the proposal.

On January 13 and 15, 1896, they sent the bill to the Committee on Judiciary, where discussion of the new bill began. On April 3, 1896 the Assembly of the State of New York approved it, on April 7, 1896 the Assembly of the State of New York ratified it, and on April 17, 1896 the Governor of the State, Lewi P. Morton, signed it, making it a law of the State of New York. Because of its great historical importance, it is reproduced verbatim in Chart 11.

**CHART 11. Act to Regulate the Profession of public accountant in the State of New York**

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**Chapter 312. Laws of 1896**  
**Passed by the Assembly April 3, 1896; Passed by the Senate April 7, 1896.**  
**Signed by the Governor on April 17, 1896.**  
**State of New York**

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An Act to Regulate the Profession of Public Accountants.

The people of the State of New York, represented in the Senate and Assembly, do enact as follows:

Section 1. Any citizen of the United States, or person who has duly declared his intention to become a citizen, residing or having a place for the regular transaction of business in the State of New York, over twenty-one years of age and of good moral character, and who has received from the Board of Regents of the University a certificate of his qualifications to practice as an expert auditor of accounts as hereinafter provided, shall be called and known as a Certified Public Accountant; and no person shall assume such name, or use the abbreviation CPA or other similar expression, in letters or figures, to indicate that the person using it is a Certified Public Accountant.

Section 2. The Board of Regents of the University shall make rules for the examination of persons applying for such certificate under this act, and may appoint a board of three examiners for this purpose, which board shall, as of the year 1897, be composed of Certified Public Accountants. The Board of Trustees shall charge for the examination and issuance of the certificate such amount as may be necessary to cover the expenses incurred, and shall report annually the collections and payments in accordance with the requirements of this Act to the State Controller, and pay the balance between collections and payments to the State Treasurer. The Board of Trustees may revoke any of these certificates if sufficient cause exists after having informed the affected party in writing and having heard him/her.

Section 3. The Board of Regents may, at its discretion, exempt from examination any person possessing the qualifications mentioned in Section 1 who has been working more than one year prior to the approval of this Act, practicing in this State on his own account, as a public accountant, and who applies in writing for such certificate within one year after the approval of this Act.

Section 4. Any violation of this Act shall be punishable as a misdemeanor.

Section 5. This Act shall take effect immediately.

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↑ Source: "Public Accounting in the United States, 1896-1913". James Don Edwards. 1955, p. 240.

With this law, the profession of *Certified Public Accountant* or CPA (auditor of accounts in Spain), although for the moment only in the State of New York, had achieved legal recognition and regulation of its function in the USA, and had done so in a logical, acceptable and fair manner, as had occurred years before in Great Britain.

Finally, we deem it appropriate to point out a fact that we consider of vital importance, namely: the reason why the State of New York was the first to enact a law recognizing and



regulating the profession of *Certified Public Accountant* (CPA), and this was not done at the federal level.

Prior to the passage of that law, many *public accountants* felt that ideally, because their practice was conducted on an interstate basis because their clients were scattered throughout the country, recognition and regulation of their profession should logically be done at the federal level. His argument was that if the medical profession was recognized at the federal level, there was no reason why the auditing profession should not be recognized at the federal level, and even more so, given the aforementioned dispersion of his clients.

The problem was that the U.S. Congress did not see it the same way, understanding that the legislation of a new profession should not be done at the federal level. In addition, since in addition to New York State, other States of the Union, such as Pennsylvania, Maryland, California, Illinois, Washington, New Jersey, etc., also enacted laws similar to that of New York State, the Congress of the United States of America was even more reluctant to become involved in enacting a federal law, in order to avoid encroaching on the legislative powers attributed to the States of the Union. For this reason, those who had the idea of federal recognition and regulation of the profession of *public accountant* gradually lost momentum and finally abandoned this project.



# 7 After the enactment of the 1896 law in the State of New York

## 1 Appointment of the Board of Examiners

Immediately after the enactment of the April 1896 law, the administrative machinery was set in motion for its effective implementation. One of the first steps was the appointment by the Board of Regents of The State University of New York of the Board of Examiners, composed of three Certified Public Accountants (CPA), in accordance with Section 2 of that law.

At a special meeting of the Council of the AAPA held on April 22, 1896, that is, only a few days after the enactment of the above law, it was agreed to propose to the Board of Regents of the State University of New York the appointment of Frank Broaker and William Sanders Davies as members of the Board of Examiners.

On October 15, 1896, the Board of Regents of The State University of New York appointed the three required examiners, whose names were: Frank Broaker, Charles Ezra Sprague and Charles Waldo Haskins. Note that one of the names proposed by the AAPA Council, William Sanders Davies, was not appointed. The reason for this is unknown, but what is clear is that the Board of Regents of the University had the power to appoint, within its authority, those it deemed appropriate.

The summary information on the three appointed members is as follows:

- Frand Broaker. Vice President of the AAPA and the person who, with his tenacity, energy and commitment, acted as a lobbyist and made possible, together with his partner Richard Marvin Chapman, the enactment of the law regulating the profession of *public accountant*.
- Charles Ezra Sprague, whose curriculum vitae will be detailed later, but who fought very intelligently in the shadows for the enactment of the law, and who drafted it for The Institute of Accounts.
- Charles Waldo Haskins. A person who was not involved in any stage of the enactment of the law, but very charismatic. It is very interesting to know the cause or reason why the Board of Regents appointed Haskins as a member of the Board of Examiners. It is explained in great detail by his partner Elijah Watt Sells, of the American auditing firm Haskins & Sells, established on March 4, 1895 (now Deloitte). It reads as follows:

“Absorbed in their new firm, with its exacting demands on their time and energy, the two partners had taken no direct part in securing the new legislation, though they were in closest sympathy with the aims to be accomplished. Shortly after the passage of the act, Mr. Sells had to make a business trip up the State and decided to stop off at Albany and have a talk with Dr. Melvil Dewey about certain details of the working of the new law.

In the interview that followed, mention was made of the Board of Examiners, and Mr. Sells instantly felt that there was a man who should be a member of the Board and that man was Charles Waldo Haskins. He told Dr. Dewey of Mr. Haskins’ standing in the profession, his ideals, his accomplishments, his splendid record of achievement, and his special fitness for the post

of honor and responsibility. Dr. Dewey was impressed with the genuine enthusiasm of the plea, but said that the matter would be decided at a meeting of the Board of Regents on the morning of the day following when the three examiners would be appointed. He regretted that he would not be able to help Mr. Haskins' cause as it was necessary that the names of candidates presenting their claims and the time was too short to secure them. Mr. Sells was not in the least dismayed by this finality, but gave no sign to Dr. Dewey, as he thanked him for his courteous attention and took his leave.

Mr. Sells thought out instantly a rapid and effective means of meeting this eleventh-hour situation. He called up one of his lieutenants in New York by long distance telephone, told him just what was needed, gave him a list of the men to see, told him what to say to each, and urged him to have telegrams sent to Albany giving their endorsement of Mr. Haskins as a member of the Board of Examiners. The next morning when the Regents met, there lay before them a stack of telegrams from the most influential men in New York, representing the largest interests and institutions of the city. So overwhelming was the endorsement that Mr. Haskins was unanimously elected by the Regents. The other two members of the Board of Examiners were Mr. Frank Broaker and Mr. Charles E. Sprague.

At the first meeting of the Examiners, Mr. Haskins was made president, a position he retained until his death. In the spring of 1897, he helped to organize the New York State Society of Certified Public Accountants and became its first president". (Haskins & Sells. 1923, p. 59). That's how Mr. Sells spent it!

The Board of Regents of The State University of New York adopted the rule that examiners would be appointed for a maximum term of three years, as follows: three years for Charles E. Sprague, two years for Frank Broaker, and one year for Charles Waldo Haskins. Haskins was appointed chairman of the Board of Examiners and Frank Broaker secretary.

Within the rules issued by the Board of Regents of The State University of New York for candidates who wanted to take the examination to obtain the *certified public accountant* (CPA) certificate, the requirements or conditions that each candidate had to meet were the following: they had to be at least 25 years old; have a satisfactory experience in accounting practice of 3 years, one of which had to be in the office of an auditor (*expert public accountant*), and pass the examination that dealt with four subjects: accounting theory, accounting practice, auditing and business law. Candidates for the above-mentioned professional certificate were required to satisfactorily answer 75% of all the questions asked in each of the four subjects mentioned above. It should be noted that, at present, the examination to become a *certified public accountant* covers the same subjects, although it is much more difficult and also longer than in the earlier years.

## 2 Call and results of the first examination

Section 3 of the 1896 Law regulating the profession of *public accountant* in the State of New York established that the Board of Regents of the University of the State of New York could, at its discretion, exempt from taking the examination any person who met certain conditions, i.e., to put it clearly and unambiguously, who had been working as a *public accountant* for a certain period of time, with sufficient proof. Identical conditions were met, for example, in Scotland, in England and Wales and even in Spain, so this situation should not come as a surprise as it is very logical and sensible.

However, initially, the Board of Regents of the State University of New York, as the highest university body responsible for overseeing the purity and quality of the degrees issued by the University - although in this case it was not a question of issuing a university degree for courses taught at the University itself, but a professional certificate - was initially in favor of requiring everyone to pass the examination without further ado, and only in certain very specific and exceptional situations would it authorize the issue of the certificate of *certified public accountant* without taking the corresponding examination.

It was necessary to convince the Regents that the enacted law was more flexible than they thought and that the "Founding Fathers" of the State of New York, when they enacted it, had in mind to respect the acquired rights of those *public accountants* who had been practicing this profession for years, to be fair and reasonable, and not to punish them unnecessarily harshly.

These discussions are very logical and always happen, and it is logical to put them on the table to do things properly, which is what happened in this case. Finally, it was agreed to respect the "*grandfathering provision*" established in the law in a flexible manner but, yes, analyzing rigorously and in detail the applications submitted to obtain the aforementioned certificate of certified public accountant (CPA), without examination, of those persons who were practicing the profession of *public accountant* before the enactment of the law, who could sufficiently demonstrate it and who were persons of high moral character (what was called in English "*The Waiver Provision*").

However, by virtue of this requirement of the law, and in exercise of its discretionary power, the Board of Regents of The State University of New York published a rule or regulation stating that exemption from examination would be granted only to those candidates who could prove that they were practicing as *public accountants* since January 1, 1890. Needless to say, a period of more than seven years of professional practice was considered excessively long by many *public accountants* and, for this reason, it was a much-criticized rule and created great dissatisfaction, but it was not changed, so that all those candidates who wanted to obtain the certificate of *certified public accountant* had to comply with it.

The first examination for the professional certificate of certified public accountant (CPA) of the State of New York was held on December 15 and 16, 1896, in the cities of New York and Buffalo. The number of candidates who ran for it was five, of whom 3 passed—Joseph Hardcastle, William Henry Jasper, and Edward C. Charles - (Wilkinson, George. 1903, p. 9). The numbers assigned to the certificates issued from *certified public accountants* to these three candidates were, respectively, CPA No. 104, CPA No. 105 and CPA No. 119.

Annex IV details the content of this first examination for the U.S. *certified public accountant* certificate in accounting theory, accounting practice and auditing, which will undoubtedly be of interest to many readers.

In addition, many *public accountants* applied for the *waiver provision*, i.e., an exemption from taking the examination based on prior professional experience.

“The first group of certificates awarded, consisting of 14 in number, were issued in alphabetical order. Thus, Frank Broaker, by virtue of his surname initial, became the first CPA in America. Based on the order of names, it appears that 14 certificates were granted at the first meeting of the Regents. Sixteen additional certificates were granted at a second meeting and 25 more at a third meeting. An additional 31 (through number 86) were granted at the fourth meeting and 17 more at a fifth meeting. Ten more were issued at a sixth meeting (through Number 113) and eleven at a seventh meeting (through 124). An additional five certificates were apparently granted at another meeting in early 1898. Another article notes that Frederick S. Tipson was issued certificate number 84 in 1896, which concurs with the above analysis indicating that the end of one block of certificates (issued at the last meeting in 1896) was number 86”. (Flesher, Dale L; Previts, Gary John; Flesher, Tonya K.1996, p. 253).

Chart 12 details the first group of certificates granted.

In this first group of certificates issued to *certified public accountants* (CPAs), the names of the three members of the Board of Examiners - Charles Waldo Haskins, Frank Broaker and Charles Ezra Sprague - are included, obviously by "chance". They are the people who later

**CHART 12. First group of certificates awarded of Certified Public Accountants (CPA) in the State of New York, applying the waiver provision**

CPA No. 1	Frank Broaker
CPA No. 2	Richard Marvin Chapman
CPA No. 3	Leonard Hubbard Conant
CPA No. 4	William Sanders Davies
CPA No. 5	Rodney Strong Dennis
CPA No. 6	Charles Waldo Haskins
CPA No. 7	Brownell McGibbon
CPA No. 8	Frederick Converse Manvel
CPA No. 9	Charles J. Mercer
CPA No. 10	Elijah Watt Sells
CPA No. 11	Charles Ezra Sprague
CPA No. 12	Frank Irving Stott
CPA No. 13	Arthur W. Teele
CPA No. 14	Alfred Percy Walker

↑ Source: "Profiling the new Industrial Professionals: The First CPAs of 1896-97". Dale L. Flesher, Gary John Previst y Tonya K. Flesher. 1996, p. 263.

had to analyze the results of the exams taken to grant the said certificate, and also whether the persons who had requested the *waiver provision* (exemption from the exam) met the necessary requirements to obtain the certificate without taking the exam.

Referring again to the gender issue, but on this occasion referring to the United States of America, I would like to comment on the following:

1. *The first woman to obtain the Certified Public Accountant (CPA) professional certificate was Christine Ross, born in Nova Scotia (Canada) in 1873.*

There is discussion about the date on which she took her examination to become a *Certified Public Accountant (CPA)*, although everything suggests that she took it in June 1898, although this is not certain. What is known is that of all those who passed on the date of her exam, she was the third best in the grades. However, at first the Regents did not see clearly, because she was a woman, the issuance of the corresponding certificate, and delayed its delivery until it could no longer hold its delivery, which was dated December 27, 1899. Therefore, she obtained her CPA No. 143 when she was 26 years old. In the listing of *Certified Public Accountants* of the State of New York, issued in June 1920, she appears under the name Christine Ross Barker (Gray, Cassandra. March 29, 2012).

2. *The first African-American woman to achieve the Certified Public Accountant (CPA) professional certificate was Mary T. Washington, born in Chicago. She obtained it in 1973. She was the 30th person of color to obtain this certificate in the U.S. (Gray, Cassandra. March 29, 2012).*

Therefore, despite the fact that in Great Britain *chartered accountants* predate the American *certified public accountants*, the first female CPA or auditor, if you want to put it another way in more understandable terminology, was American -Christine Ross-, with a difference of 21 years over the British Mary Harris Smith who, as has been credited above, obtained it in May 1920.

It is noteworthy that the evolution of women in the auditing profession in the U.S. has changed radically over time, given that in the year 2020, 42% of those holding the *Certified Public Accountant* (CPA) professional certificate were women. Let us congratulate ourselves on this for the sake of equality of all people, regardless of gender.





## 8 Methodology of the auditing of the accounts in the early days

### 1 Introduction

The situation of accounting and the auditing of the accounts in the United States of America prior to 1896 was diametrically different from what it is today. This was because the global environment of the country was different and, obviously, this environment affected these two disciplines in a very significant way. The most relevant facts of this environment are set out below:

1. The situation of American society in general. Reckitt, in his book, describes it perfectly in his reference to the city of Chicago, where he lived:

“In 1891 we had no electricity either for lighting our homes or for other domestic purposes, no motor cars, trucks or tractors, and of course no aeroplanes. Moving pictures, radios and marconigrams were yet to be discovered. What a difference from today when we have pictures in our newspapers of the scenes of the day before from all over the world;... The telephone and the typewriter were in their infancy. Accountants’ reports prior to 1892 were usually written in longhand, so that good handwriting was a necessary accomplishment. I have a vivid memory of having to prepare, in my own handwriting, three copies of a long report dealing with an audit of a large packing house in Kansas City, but after that experience I purchased a typewriter, hired a stenographer and typist and then taught her how the exhibits and schedules should be set up and the whole report bound up. Mr. George Wilkinson, who later became my partner and who was such an important factor in the advancement of our profession, told me that about the year 1890 when he was in the employ of Barrow, Wade, Guthrie & Co., in their New York office, Mr. Anyon, the senior partner, purchased a typewriter. Mr. Wilkinson, being of a mechanical turn of mind, began to play with it and having mastered some of its intricacies wrote a whole report on it. Mr. Anyon was delighted and requested him to write another report on the typewriter, but Mr. Wilkinson, very wisely, seeing that his mechanical aptitude might result in his becoming an expert typist instead of a public accountant, refused to have anything more to do with this great adjunct to an accountant’s service to his client”. (Reckitt, Ernest. 1953, p. 226).

It should be noted that in New York City the situation of American society was more advanced, approximately three–five years in relation to that described by Reckitt in Chicago.

2. The governmental policy of *laissez-faire* in the business world. This is a very relevant aspect because of the great importance it had for the American auditing profession. Indeed, the American government followed a policy of non-interference in the business world, in the belief that the founding fathers of the country made it clear that their influence should be minimal so that businessmen and entrepreneurs could create wealth without hindrance of any kind. In other words, individual entrepreneurial freedom was what should prevail, without restrictions.

Consistent with this philosophy, the business world operated without government regulation of any kind, in the absence of regulatory bodies, leaving it up to businessmen to run their companies and their operations.

In the period we are analyzing, that is, until 1896, the only known governmental accounting regulations were the instructions for the keeping of railroad accounts issued in 1876 by the Railway Commissioners of Massachusetts and, years later, the creation of the Interstate Commerce Commission (ICC), by an act of Congress dated February 4, 1877. In 1894, the Interstate Commerce Commission issued a classification of operating expenses for railroad companies.

Therefore, the governmental policy of *laissez-faire* was in full swing - remember that not even the corporate tax had been created in the USA - so that businessmen were not legally bound to anything in terms of financial information, transparency and publicity of their accounts, as they were called in those days.

In anticipation of what we will publish in a future book, the major governmental regulatory agencies -with the exception of the aforementioned Interstate Commerce Commission-, some of which have had a major impact on accounting and audits, were created in the 20th century, so they could not have had any influence in the period we are analyzing. Just as a reminder, we will mention the most relevant regulatory agencies:

- *The Internal Revenue Service (similar to the Spanish Tax Agency) implemented in 1909 an "Excise tax on corporations", which allowed, among others, for the first time the tax deduction of a part of the depreciation of tangible fixed assets.*<sup>10</sup>
- *The Federal Reserve Board, approved by the Federal Reserve Act of 1913.*
- *The Federal Trade Commission, approved by the Federal Trade Commission Act of 1914.*
- *The Federal Power Commission, approved by an Act of 1920.*
- *The Securities Act of 1933.*
- *The Securities and Exchange Act of 1934, creating the Securities and Exchange Commission (SEC) - Comisión Nacional del Mercado de Valores (CNMV) in Spain -, by far the government agency that had the greatest impact on both accounting and audits.*
- *The Federal Communications Commission, approved by an Act of 1934.*
- *The Public Utility Holding Company, approved by the 1935 Act.*

3. The scarcity of books on accounting and auditing. This is an essential point, given that in those days, before 1896, the bibliography on these two disciplines was very poor

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<sup>10</sup> The effect of tax laws and regulations in the 20th century on accounting practice was very important in improving it and also in maintaining uniformity in its application. A classic example: until the 1909 US tax legislation did not allow the deduction of depreciation charges for part of the tangible fixed assets, that is, to consider them as a tax-deductible expense, for which reason they were not accounted for by many companies and, therefore, their amount did not appear in the profit and loss account as a loss on the use of the asset. However, it should also be noted that the 1907 revision of the classification of operating expenses of railroad companies, issued by the Interstate Commerce Commission (ICC), already allowed the inclusion of annual depreciation allowances, but only for companies subject to the regulation of this regulatory agency, which were mainly carriers (including railroad companies) (Brundage, Percival, p. 385). The impact of the tax legislation of 1909 caused many companies that had not previously accounted for the annual depreciation of fixed assets to do so in order to deduct the loss it represented for tax purposes.

As a result, the American auditors had to accept, on many occasions, that the audited companies did not account for the annual depreciation charge, because there were no accounting standards of any kind and the companies followed the classic practice of "every man has its own trick". The discussion at one of the brewing companies audited by Price, Waterhouse & Co. in Chicago is very interesting. The British partner of this auditing firm, J. Gurney Fowler, who was responsible at Price, Waterhouse & Co. in London for the work carried out in the United States of America, got tough on this issue and forced the company to make the depreciation allowance as a matter of course, withstanding all the pressure on the subject. It should be noted that the chartered accountants had already overcome this technical issue in Great Britain many years before, so they could not accept its non-recognition. We will return to this subject when we discuss the beginnings of Price, Waterhouse & Co. in America later on.

and, as far as accounting was concerned, the books that existed were texts aimed at learning bookkeeping, dealing only with basic accounting procedures and techniques. Without pretending to mention all the existing books, we will detail the best-known ones.

On accounting those issued after the American Civil War were the following:

- *Science of Accounts*, by G. P. Greer, published in 1882.
- *The Anatomy of a Railroad Report*, by Woodloch, published in 1895.
- *Manual of Exhibit Bookkeeping*, by Selden H. Hopkings, published in 1879.
- *Theory of Bank Bookkeeping and Joint Stock Accounts*, by C. C. Marsh.
- *Manual of Theoretical Training in the Science of Accounts*, by Silas Sadler Packard. New York, 1868.
- *The Logic of Accounts*, by E. G. Folsom, published in New York, 1873.
- *Science and Practice of Accounts*, by George Soule.
- *Railway Expenditures*, by Kirkman, published in 1880.
- *Cost of Manufactures*, by Henry Metcalfe, published in 1885.
- *The Commercial Organization of Facilities*, by J. Slatter Lewist, published in 1890.
- *Principles of the Science of Accounts*, by E. D. Moore, published in 1890.
- *Bookkeeping and Accounting*, by S. W. Crittenden, published in 1877.
- *Science of Double Entry Bookkeeping*, by Christopher Columbus Marsh, published in successive editions from 1852 to 1884.
- *Algebra of Accounts*, by Charles Ezra Sprague, published in *The Bookkeeper* in the years 1880-1882, was not a book but a series of articles.
- *Single and Double Entry*, by J. F. Schär, published in 1894.

Many treatise authors consider that this period was really poor in terms of accounting publications that provided new ideas and knowledge of the discipline.

There was only one book on auditing, entitled *Auditor's Guide*, by H. J. Mettenheim, published in 1869, which was only 16 pages long and therefore had little to convey.

The British chartered accountants who arrived in the USA from 1888 onwards to work in breweries carried with them the book *Auditing: A Practice Manual for Auditors*, written and published by the English chartered accountant Lawrence R. Dicksee in 1892, in which he summarized the auditing practices followed in Great Britain, which was for them like the "Bible" and therefore their reference book from the year of its publication onwards.

In addition, apart from the scarcity of books on accounting, another great problem and difficulty was to find accounting teachers who could adequately transmit the knowledge of this discipline, a fact that undoubtedly slowed down the development of this subject extraordinarily.

A very important issue was the teaching of accounting at American universities. It is sad to point out that it did not begin until 1870 at The School of Commerce of the University of Illinois, being only one of the subjects taught, although this school closed its doors in 1880.

The second university school that taught accounting was The Wharton School of Finance and Economy at The University of Pennsylvania -later renamed The Wharton School of Commerce and Finance-, created in 1881 by a \$100,000 donation from Joseph Wharton, although the accounting course did not begin until 1883 and, in that first

year, the accounting class only had 12 students and it took a few years for it to reach a notable level of development.

It is interesting and curious to know the content of the teachings of this new American business school, which was the first university business school with continuity in the USA, with a duration of three academic years. According to its initial catalogue it was as follows:

“Sub-junior year - English, German, French, Latin, physics, mineralogy, social science, and mercantile practice, the latter including business procedure, management of trusts, and routine of banking.

Junior year - English, German, French, Latin, physics, geology, mental and moral science, and social science, the latter including money, banking, credit system, panics, security markets, taxation, national industry, capital and labor, and related matters.

Senior year - English, mediaeval and modern history, physics, astronomy, law including elementary, mercantile, common carrier, license, land, corporation and constitutional law of the United States and Pennsylvania, and social science including land, labor and monetary questions, socialism and communism with research in the theory and history of such matters.” (Webster, Norman E. 1941, p. 442).

The third American university that taught accounting was The New York School of Accounts of the State University of New York, which only taught it in the academic year 1893-1894, because, as we have explained above, this university school only opened for one year out of the two it had planned, due to the lack of a minimum number of students. Until 1896, no other North American university taught accounting, thus demonstrating that they did not feel or consider the need to teach it in their classrooms, for multiple reasons, which we are not going to explain at this point.

4. The secrecy and lack of transparency of companies were, in those days, our daily bread. In our opinion, there were three reasons for this:
  - The directors of many companies have the opinion - and possibly believed - that both their shareholders and the general public were not entitled to receive any information about them. This was clearly a self-interested opinion or belief, but one that they actually put into practice.
  - They also argued that, if they were to provide information, their competitors would be likely to find out and therefore the company's interests could be seriously harmed.
  - There was no legal obligation to provide it, which meant that the US administration itself was aware that it should not be provided, as it was unnecessary, so the most prudent thing to do was not to publicize its accounting information at all and to "tell as little as possible", i.e., absolutely nothing at all.

Evidently, with so many "magical" reasons against, companies did not provide any accounting information and, as a result, there was disinformation, ease of manipulation and an information obscurantism of great proportions, even for their own shareholders, who were deprived of knowing the real situation and the profits generated or the losses suffered in the companies in which they had invested money. Quite a poem.

“For example, during the 1870s and 1880s the New York Central Railroad rendered no annual reports to its shareholders. Also, in responding to an inquiry from the New York Stock Exchange for financial information, the Delaware, Lackawana and Western Railroad, whose stock was also traded on the Exchange responded “... the Delaware, Lackawana and Western Railroad makes no report, publishes no statements, and ... (has) not done anything of the kind for the last five years”... It was not until 1899 that the New York exchange took definite steps to require financial statement reports on a regular basis from listed companies”. (Previts, Gary John and Merino, Barbara Dubis. 1979, pp. 80 and 89).

And it goes without saying that this same situation existed in a multitude of companies, for the simple reason that, not being obliged to disclose their financial information to their shareholders or to the general public, they simply did not do so.

In anticipation of what we will explain in detail in a forthcoming book, we place special emphasis on the fact that the blow against this situation and interested opinions occurred on 17 February 1902, when the shareholders of the United States Steel Corporation, which was by far the largest trust in the USA in those days, appointed the American firm Price, Waterhouse & Co. to audit their accounts for the year 1902.

The corporate report issued by the trust for the first year provided a range of accounting and financial information never before seen in that country. It was the beginning - albeit a gentle one, for the time being - of a change that took many years to change course in that country, due to the lack of legislation to enforce it, but, in short, it was the starting shot. The audit report of that first year was also a model that many other American audit firms copied, or at least took into account, within the English style. Another important development was that this trust was the first to establish a policy of having its auditors appointed by the shareholders, rather than by the directors, which had been the general practice, with some exceptions, up to that time.

## 2 The accounting records of the time

The accounting records of the time were simple but effective: the sales ledger, the purchase ledger, the cash book, the general ledger and the general journal, the latter being the place where all transactions other than those in the three books mentioned above were recorded. All the books were properly bound and their pages numbered. Needless to say, all the transactions were written down by hand, in ink, and the sums, as there were no computers or adding machines, were done manually, using the "blood traction" system, a very expressive and real term.

Taking into account that some accounts in the general ledger required many pages due to the volume of operations of the company in question, when a page was full, the number of the page where it continued was identified, which could be located much further on, because the next pages were occupied by other accounts. The accountant had to be a careful person, with good handwriting, so that his or her writing was clear and understandable.

Often, the accountant was a trusted person of the owner, so that in addition to keeping the cash book and handling the company's funds, he also recorded the transactions recorded in the general journal, thus eliminating the necessary segregation of duties and, consequently, facilitating the manipulation of the accounting records and the possibility of dishonesty, because "there is a thin line between honesty and fraud" and it involves the need for money and the opportunity to take it.

Another common and surprising feature of the period we are analyzing was the use by some companies of the so-called "private ledger", consisting of a book equipped with a lock and key - yes, lock and key - where the salaries of directors, the total amount of sales, purchases, investments in tangible fixed assets, and any other data that the company considered it appropriate to protect because it considered them confidential, were recorded. We must remember that we are talking about a time of secrecy, of non-publicity of company data and of a certain closed mentality which, in practice, had no real reason to exist, as was evidently demonstrated years later, but which, in those days, worked in this way.

Obviously, in this private ledger, only the owner of the company or a person of his absolute confidence recorded the basic data of the company from the rest of the accounting books

used by the company, in such a way that only the person in charge of keeping it had knowledge of the figures necessary to be able to prepare the trial balance and the subsequent information.

### 3 Audit engagements of the time

The work of the first audits is well described by Robert H. Montgomery<sup>11</sup> in the first edition of his famous book *Auditing Theory and Practice*:

"The work programme usually consisted of checking all cash payments, checking all amounts and transfers, checking the correctness of transfers from the general ledger to the trial balance and from the trial balance to the financial statements. He estimated that three-quarters of the time spent in carrying out the audit work was consumed in checking sums and transfers, for experience had shown that three-quarters of the embezzlements originated from failure to account for receipts and cash receipts." (1912, pp. 80 and 258).

In another book by the same American auditor, he repeats the same opinion, as follows:

"Sad to relate much of our time in those days was consumed in endless checking of postings from one book to another (p. 14) ... Frequently the books had been out of balance for months or years, and the finding of the errors was a terrific task ... In some audits and not only small ones, we verified every footing and every posting (p. 19) ... Fifty years ago in the United States the public accountant was little known, little recognized, little wanted. He was little recognized because the matters which were referred to him at that time were relatively unimportant and this unimportance tended to reduce him to the level of a clerk". (Montgomery, Robert H. 1939, p. 316).

It is necessary to comment on a fact of great relevance, namely the change in the auditing procedures applied in the USA in relation to those applied by British *chartered accountants* at home.

Indeed, in Great Britain, the practice was to carry out very detailed audits in order to ensure that each account they examined complied properly with the law (detailed or complete audit). By contrast, in the USA, where there was no law, the concept was different and, in addition, the existence of large *trusts* or conglomerates of large companies made detailed and exhaustive verification of their accounts impossible. It could not be done in any other way.

One issue that will probably come as a surprise today is the fact that, in those days, working papers were not prepared as we know them today, as a means of accrediting the work carried out, the source or origin of the documents examined, their scope, the audit procedures and techniques used, the findings, the recommendations to be suggested for the improvement of accounting procedures and internal control measures, the conclusions reached, etc. The auditor in those days did not make any recommendations. His job was different: to discover errors and detect irregularities of any kind, everything else was secondary.

"I remember when the regulation audit procedure involved first a checking of the vouchers and every supporting document, each document being then carefully stamped with the word "audited". All postings to the ledger to real and nominal accounts were then checked, not as a test but completely, the effect being to evidence, when the trial balance was taken, that the postings to personnel accounts were, in the aggregate, correct. In checking the bank account, a cutoff statement was not considered essential. There were no such things as working papers as we know them today; the check marks in the books constituted a record of everything that

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11 Robert H. Montgomery was one of the great American auditors, a partner in the auditing firm of Lybrand, Ross Bross & Montgomery, founded in Philadelphia on 1 January 1898. In 1950, he was inducted into the *Accounting Hall of Fame* No. 2 at Ohio State University. His name is forever etched in the annals of auditing in the United States of America. In a future book we will speak at length about him and his achievements.

had been checked so there was no purpose in separate papers. Practically the only records made and kept by the auditor were the trial balance and his work program on which he checked off each operation as it was completed. I remember when an auditor's report might be accompanied by a certificate reading merely, "The accompanying statements have been audited and found correct", or "We certify the accuracy of the accompanying statements." My office did use a longer and safer form but its wording I've forgotten". (Herrick, Anson. 1960, p. 61).

The audit procedures applied in those days did not contemplate, among others, the presence of the *public accountant* in the physical inventories of his clients' stocks, nor the sending of circularization letters to clients or suppliers, nor the review of the minutes of the Board of Directors and management committees, nor the knowledge, review and evaluation of its internal control system, nor many other audit procedures that are nowadays normally applied to obtain sufficient and appropriate evidence on various aspects of the audited financial statements, so that we cannot compare the audit procedures of today with those of those days. Clearly, those were different times and should be seen as such today.

On some occasions, some *public accountants* asked for the minutes of the Board of Directors and management committees, and they were either provided or not. In some cases, company directors were even annoyed simply because of such a request, claiming that they did not trust the company or the directors. But what was clear was that, if they did not allow access, it could be a sign that there might be suspicious issues that *public accountants* were not interested in knowing about. It takes all sorts to make a world...

In those days, verification procedures such as those mentioned above were applied to check all cash payments - meaning cash payments and payments made through banks, whatever the procedure - which are rationally misconceived in auditing, so that there was clearly no "clear and logical audit methodology" by any stretch of the imagination. Again, it was a different time.

Consider, although it may seem strange today, that it was not until 1939 that the then American Institute of Accountants - the successor to the American Association of Public Accountants (AAPA) - issued the first mandatory statement on auditing procedures, entitled SAP No. 1. *Extensions of Auditing Procedures*, obliging *Certified Public Accountants* (CPA) to be present to observe the physical inventory of their clients' inventories and to circularize client balances in order to obtain their confirmation of the reality and correctness of the balances recorded, as a result of the fraud perpetrated by senior management at McKesson & Robbins Incorporated (\$19 million in non-existent assets), which went undetected by their auditors.

This audit failure was due to the fact that your auditors did not apply the two audit procedures mentioned above, which, incidentally, were not mandatory at the time in the absence of any regulations requiring them. Obviously, had they been applied, the auditors of this group of companies would have detected the non-existent stocks (USD 10 million) and the fictitious customer balances (USD 9 million).

However, it is surprising, both from today's perspective and from the perspective of those days, that from the outset, auditing procedures in the United States of America did not provide for the auditor to be present when observing the physical inventory of his clients' inventories, as this was a physical asset, which logically had to be verified as to its existence.

According to our criteria and following a logic, it was absolutely necessary in the first place to prove that the inventories existed and also whether or not they were in good condition, regardless of the fact that other audit procedures would subsequently have to be applied to

determine their ownership, their valuation, their possible impairment, their proper classification in assets, their availability, the proper cut-off of operations, and we are no longer talking about their proper disclosure in the notes to the financial statements, because the latter was impossible, given that in those days there were not even notes to the financial statements.

The same applies to the need to prove the existence and correctness of the amounts of receivables from customers - also an asset, not in physical form but as a receivable - by obtaining direct written confirmation from customers, which is a procedure of obtaining evidence from third parties, which is obviously of higher quality than evidence obtained from internal company documents.

As readers can plainly see, the advancement or progress of auditing procedures in the United States was a slow process and it took many years before things returned to normal and reached the necessary and logical quality, but what was done at the beginning of the auditing profession must be put in the context of the times, since to judge it with today's means and knowledge would be extemporaneous.

One of the great difficulties faced by public accountants at the time we are analyzing was to find both assistants and seniors who were competent and who had a minimal understanding of the intricacies of the job. This was logical, given that, with no accounting or auditing education in universities and very little education in academies - apart from its quality - finding young people who were minimally prepared to do the necessary work was like looking for a needle in a haystack.

For this reason, sole practitioners and audit firms had no choice but to train their own staff, considering that it was very difficult to find people with the required characteristics on the market. This approach to recruitment and training was slow but proved to be very effective over time, despite the inherent difficulties and time required.

Indeed, the search for new collaborators required the candidate to have at least some knowledge of accounting, a good character, a willingness to work in a team and long hours, intellectual potential for the future, willing to undergo the relevant training for years and to suffer the necessary supervision of their work, all of which was no mean feat, and if we add to all this the constant travel involved in being away from home with the inherent inconveniences of those times, and the impossibility of having a reasonable personal life, especially if one was married, it was a real Molotov cocktail.

In addition, many audit engagements at that time were not recurrent, as there was no legal obligation to carry them out, so many *public accountants* were faced with the fact that after carrying out a first difficult and cumbersome audit job on a client, it was possible that it would not be repeated, so the "goodwill" of that effort remained in the boot of memories and the investment in hours made had to be charged to the ice bar.

In this respect, it should be pointed out that in the beginning, *public accountants* did tailor-made accounting and auditing assignments - as happens, for example, with lawyers - but over time they became essential, as company shareholders distanced themselves from the management team, to validate the accounts presented by the administrators year after year. This comment is undoubtedly a very important factor in the history of *public accountants* in the United States of America.

Not to mention the problems arising from the famous secrecy mentioned above, which sometimes forced the senior and assistant auditors not to enter their clients' offices



together at the same time, so that the employees would not identify that an audit of their accounts was being carried out, which would have made them feel that the company they were working for was probably in a situation of insolvency. As readers can see, those were different times.

#### 4 How auditors were viewed

The opinion of another well-known *public accountant* of those days reflects this perfectly:

“In 1891, and for same time thereafter, the members of our profession were, by quite a number of people, looked upon as a type of detective in the discovering of defalcations, or as “lightning calculators” especially qualified in the finding of errors in books of account.

During this period, it was frequently a sad and pathetic experience to find defalcations and other irregularities. It may sound an exaggeration, but it was my experience that approximately in every three new audits we would discover defalcations in every two. This condition was undoubtedly due to the fact that no audits had ever been made prior to that time, no fidelity bonds placed on trusted employees, no internal check was made of cash receipts and disbursements and in numerous cases the cashier also kept the general ledger and journal. In smaller concerns he also kept the customers’ ledgers.

Cashiers and book-keepers felt it was a reflection on their characters if an accountant was called in to make an audit, their belief being that public accountants were never engaged unless a defalcation had been discovered or suspected. In the year 1893 or thereabouts, I was requested to make an audit of a large retail coal concern. The office staff was courteous but cold to my staff. After the audit was completed the office manager, who was also the cashier, told me that at first, he and the other employees had felt outraged when informed that outside accountants had been engaged to conduct an audit, but that now he was delighted an audit had been made, for prior to that time his employer did not know whether he was honest or not, but now his employer knew he was honest”. (Reckitt, Ernest. 1953, p. 248 of the book by Grant, Julia. 2021).

Audit work in those days was very routine, cumbersome and, if we may say so, added little value to companies. For this reason, it is not surprising that the *public accountant* was seen as a mere tester or verifier of figures and nothing more, and that employers did not see the positive side of his work, and did not understand his role very well. It took many years for his function and usefulness to be properly understood by the general public, as well as the realization that his work was necessary to achieve transparency and to accept the reasonableness of the content of companies' financial statements, two aspects or facets that are now no longer disputed and are accepted by everyone.

#### 5 Audit engagements in other cities and towns

Due to the fact that many American companies had an interstate influence because their facilities were spread over several states of the Union, the auditors' travel was necessary for their verification work at the audited companies' workplaces. For this reason, there was a lot of travelling and the conditions of accommodation, food, train travel, laundry and so on left much to be desired.

One of the most lurid examples is explained by James T. Anyon:

“In a visit to a place called Mills Camp in Alabama in the 1890’s, his train was hours late, and he arrived at midnight in a desolate part of the country where there was no railway station, but where he was allowed to dismount from the train. A night watchman met him and allowed him to sleep, in the rain, around a roaring fire among a group of convicts who were working at the camp. When morning came, he was allowed to go to the house of the manager, where he was given coffee, and found other civilized amenities”. (Carey, John L. 1969, p. 33).

Robert H. Montgomery, who started working in the office of *public accountant* John Heins in Philadelphia on February 4, 1889, at the age of 16, as an office boy, recounts in one of his books, his endless experiences in the beginning of his professional career that would lead him to become a CPA and also a lawyer, a very unusual combination in his time. Let's look at some of his experiences:

“For instance, we had a job in Vicksburg, Mississippi. There was no hotel near the office in which we worked, so we camped out in the mill. The beds were rather dirty and uncomfortable and the food was bad. But that was not unusual. The most vivid part of that job was the use we made of the Mississippi River. It looked muddy and was muddy. If it stood still for awhile the mud settled a bit. We drank it and bathed in it and with the impatience of youth we didn't always wait for the mud to settle. We had a great many out-of-town engagements. On our arrival we slept where we could and ate what they had. Even the old standards probably we were underprivileged but we were too busy to complain about it. One winter Adam Ross and I spent six weeks in a town in the mountains of North Carolina. And it was cold! We occupied a double bed and used one wash bowl. In the morning the water in the pitcher was frozen. It snowed right down the chimney into our room. In order to finish the job on time, we worked nights and Sundays and all night at the end. I distinctly remember making light of every-thing but the food. They cooked with rancid grease, so we had to live on boiled eggs. Our average was six or eight a day...

As soon as I was deemed to be qualified to verify footings and assist in verifying postings, I was sent out as a junior. For ten or twelve years I was out of town about half the time. I spent nearly six months in Tacoma, Washington, in one year. In my early days the railroad accommodations were nothing to brag about and many of the hotels were terrible”. (Montgomery, Robert H. 1939, pp. 21 and 20).

## 9 The first sole practitioners and the creation of *public accounting* firms up to 1896

The list of all practitioners or partnerships acting as public accountants before the legal recognition of the profession of *certified public accountant* (CPA) in the State of New York in April 1896 is obviously long and we understand that it does not contribute anything to what we intend to achieve in this book.

### 1 Sole practitioners as *public accountants*

It is totally beyond the scope of this book to cite them all, which would make no sense, and we cannot logically identify them either, so we will follow the practice of citing only the names of those individual practitioners as public accountants who brought added value to American society, especially in the State of New York, as it was the first state to recognize and regulate them legally as a profession. Chart 13 lists their names, their nationality, their involvement and the number of the *Certified Public Accountant* (CPA) certificate they subsequently obtained.

We believe that this selection criterion is the appropriate one, since citing all the names of those sole practitioners as *public accountants* who dedicated themselves solely to working for an honest living, while obviously important, there is no denying it, especially for their pocketbooks and personal lives, did not imply any objective or significant advance in the profession of *public accountant* in the United States of America, as it did not bring added value to American society, without detracting, of course, from the importance of doing a good job.

Therefore, with all possible reservations about this obviously subjective selection criterion, we believe it is only fair to mention the names of those *public accountants* who, with their ideas, work, efforts, dedication, enthusiasm and vision of the future, made possible the creation of the profession of *certified public accountant* (CPA) in that country.

**CHART 13. Sole practitioners as public accountants up to the year 1896**

Name	Nationality	Participation	Number of Certified Public Accountant (CPA)
1. Lyman S. Andrews	American	(11) (12)	-
2. William Angelo	Unknown	(11)	No. 87 for New York
3. James Thornley Anyon	British	(3) (4) (11) (12)	No. 31 for New York
4. Thomas E. Arnold	American	(11) (12)	No. 32 for New York
5. Thomas Bagot	British	(3) (4) (6) (7) (8) (9) (11)	No. 45 for New York
6. Louis Micheal Bergtheil	British	(3) (4) (7) (8) (9) (10) (11)	-
7. Charles Both	British (it is assumed)	(1) (4) (9) (11) (12)	No. 34 for New York
8. Henry Allen Briggs	American	(4) (6) (9)	-
9. Frank Broaker	American	(1) (4) (7) (9) (10) (11) (12) (13) (14) (15)	No. 1 for New York
10. William Henry Brook	British	(3) (4)	No. 17 for Michigan
11. William M. Brooks	British	(4) (9) (10) (11)	-
12. Leon Brummer	American	(11)	No. 88 for New York
13. Charles E. Cady	American	(1) (11)	No. 123 for New York
14. William J. Calhoun	British	(1) (3) (4) (5) (15)	-
15. Hudson Campbell	American	(11)	No. 70 for New York
16. Richard Marvin Chapman	American	(4) (7) (9) (10) (11)	No. 2 for New York
17. Frederick W. Child	Unknown	(1)	No. 4 for Connecticut
18. George H. Church	American	(3) (4) (10)	No. 166 for New York
19. Andrew Allen Clarke	British	(11)	No. 15 for New York
20. Alexander C. Clerihew	American	(4)	No. 90 for New York
21. Edward Thomson Cockey	American	(1) (2) (11)	No. 91 for New York
22. Leonard Hubbard Conant	American	(11)	No. 3 for New York
23. Henry Rigsdale McDonald Cook	British	(4) (6) (7) (9) (11) (12)	No. 107 for New York
24. James Cox	Irish	(1) (3) (4)	-
25. William Sanders Davies	British	(4) (10) (11) (12) (13)	No. 4 for New York
26. Charles Dutton	American	(1) (2) (11) (12)	No. 180 for New York
27. David Jinkens Edmond	British	(11)	No. 93 for New York
28. James Benhow Elliman	British	(3)	-

**CHART 13. Sole practitioners as public accountants up to the year 1896**

<b>Name</b>	<b>Nationality</b>	<b>Participation</b>	<b>Number of Certified Public Accountant (CPA)</b>
29. Robert Lethbridge Fabian	British	(3) (4) (5)	-
30. David Parkes Fackler	American	(3)	-
31. John W. Francis	American	(3) (4)	No. 74 for New York
32. Francis Gottsberger	American	(4) (11) (12)	No. 36 for New York
33. Charles Gray	Unknown	(5) (9) (11)	-
34. Joseph Hardcastle	British	(1) (2)	No. 104 for New York
35. Henry Harney	American	(1) (2) (11) (12)	No. 18 for New York
36. Charles Waldo Haskins	American	(1) (3) (14) (16)	No. 6 for New York
37. Norval A. Hawkins	American	(1)	No. 19 for Michigan
38. John Heins	American	(3) (4) (7)	No. 5 for Pennsylvania
39. Selden R. Hoppings	American	(1) (2)	No. 124 for Illinois
40. Thomas R. Horley	British	(7) (11)	No. 106 for New York
41. John Hourigan	American	(1) (11) (15)	No. 19 for New York
42. William Bainbridge Jaudon	Unknown	(1)	No. 95 for New York
43. Henry Kelly	British	(3)	-
44. James Nicholas Kelly	Unknown	(11)	No. 49 for New York
45. August F. Kerk	American	(3)	-
46. Anson O. Kittredge	Unknown	(1) (2)	No. 121 for New York
47. Capel Ellis LeJeune	British	(11)	No. 39 for New York
48. Farquhar J. McRae	American	(1)	No. 23 for New York
49. Rodney McLaughlin	American	(3) (4) (5)	-
50. Mark Coffin Mirick	American	(3) (4) (11) (15)	-
51. Robert Frater Munro	British	(3)	-
52. Charles D. Phelps	American	(11)	No. 43 for New York
53. Horace A. Piper	American	(3)	No. 80 for Massachussets
54. Thomas Cullen Roberts	British	(4) (11) (12)	No. 154 for New York
55. J. Roderick Robertson	British	(3)	-
56. Thomas P. Ryan	Unknown	(11)	No. 63 for New York
57. David Rollo	British	(4)	No. 27 for New York
58. Sidney Eugene Sargent	Unknown	(1)	No. 28 for New York

**CHART 13. Sole practitioners as public accountants up to the year 1896**

<b>Name</b>	<b>Nationality</b>	<b>Participation</b>	<b>Number of Certified Public Accountant (CPA)</b>
59. Edward Henry Sewell	British	(3)	-
60. Charles H. W. Sibley	Unknown	(3) (5)	-
61. John S. Sparrow	Unknown	(11)	No. 54 for New York
62. William K. Spinney	Unknown	(3)	-
63. Charles Ezra Sprague	American	(1) (2) (7) (14) (16)	No. 11 for New York
64. Richard Fowler Stevens	American	(4) (6) (10) (11) (12)	No. 29 for New York
65. Henry Marschall Tate	American	(3)	-
66. William Trenholm	American	(4) (10)	-
67. William Henry Veysey	British	(1) (2) (3) (4) (11)	-
68. Walter Hugh Peyton Veysey	American	(1) (3) (4) (5)	No. 192 for New York
69. Alfred Percy Walker	Unknown	(11)	No. 14 for New York
70. John W. Whitehead	Unknown	(4) (10)	No. 103 for New York
71. James Yalden	British	(3) (4) (6) (7) (8) (9) (10) (11) (12) (13)	No. 138 for New York
72. Louis Yalden	British	(4) (7) (9) (10)	-

**Participation**

- (1) Member of the Institute of Accounts.
- (2) Delivered lectures at the Institute of Accounts.
- (3) He participated in the formation of the American Association of Public Accountants (AAPA) on 22 December 1886 and became a member on that date.
- (4) Held executive positions in the AAPA until 31 December 1896.
- (5) He signed the certificate of incorporation of the AAPA in New York City on 20 August 1887.
- (6) Member of the committee to try to get a College School of Accounts appointed on 9 January 1892.
- (7) Meeting with the Board of Regents of the State University of New York to support the creation of the former College School of Accounts on 8 June 1892.
- (8) Trustee for the establishment of the College School of Accounts for the period 1892-1894.
- (9) Financial guarantor for the establishment of the College School of Accounts for the period 1892-1894.
- (10) Professor at the School of Accounts for the academic year 1893-1894.
- (11) Meeting of 45 people (the vast majority of them public accountants) in New York City on 13 March 1895 to discuss the enactment of a future law on the profession of public accountant.

- (12) Member of the Commission of 14 people elected at the previous meeting on 13 March 1895 to study and decide on the relevant aspects to be included in a future law on the profession of public accountants.
- (13) Appointment by the AAPA Council in November 1895 of a special committee of three persons to lobby and manage for the enactment of a future law recognizing and regulating the profession of public accountant.
- (14) Appointment in 1896 by the Board of Regents of the State University of New York of the Board of Examiners to obtain the certificate of Certified Public Accountants (CPA), consisting of three members who had to be Certified Public Accountants.
- (15) AAPA resolution expressing the great loss of a deceased (William J. Calhoun case on 7 December 1889), or of an honorary member (Mark Coffin Mirick case on 12 November 1893), or of recognition of Frank Broaker, its vice president, for his great efforts to bring about the enactment of the 1896 law regulating the profession of public accountant in New York State.
- (16) Charles Ezra Sprague was honored by Ohio State University in 1953 with the number 10 in the Accounting Hall of Fame, established in 1950. Charles Waldo Haskins was given the same honor with the number 65 in 2000.

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↑ Source: Own elaboration based on many documents, in particular, but not exclusively, the following:

- "The American Association of Public Accountants: Its First Twenty Years 1886-1906". Norman E. Webster.
- "Certified public accountants of the state of New York". New York State Society of Certified Public Accountants. June 1920.
- "A History of Accounting in America. An Historical Interpretation of the Cultural Significance of Accounting". Gary John Previts and Barbara Dubis Merino.
- "The New York State Society of Certified Public Accountants. Foundation for a Profession". Julia Grant.
- "Profiling the New Industrial Professionals: The First CPAs of 1896-98". Dale L. Flesher, Gary John Previts and Tonya K. Flesher.
- "Leaders of the Accounting Profession: 14 Who Made a Difference". Stephen A. Zeff.
- "The State Board of Examiners". Accountant's Department. Frank Broaker, Charles E. Sprague and C.W. Haskins.
- "Charles Waldo Haskins". Wikipedia.
- "Biographical sketch of Professor Charles Waldo Haskins, C.P.A.". Atlantic Publishing and Engraving Co.
- "Charles Waldo Haskins, an American pioneer in accountancy". Haskins & Sells.
- "James Yalden." Accountant's department.
- "Charles Ezra Sprague". The Accounting Hall of Fame. American Accounting Association.
- "Charles Waldo Haskins". The Accounting Hall of Fame.

The above chart lists the names of those public accountants who participated, in one way or another, in the advance and progress of the creation of a new profession, especially in the State of New York, whose legal recognition was achieved in April 1896. Of all of them, we will highlight the following in particular, bearing in mind that other names from this period will also appear in later books.

James Thornley Anyon (British nationality); Thomas Bagot (British); Louis Micheal Bergtheil (British); Charles Both (presumably British); Frank Broaker (American, the man who lobbied ad nauseam to try to enact the law for the profession of public accountant in New York State, and later president of the American Association of Public Accountants (AAPA)); William J. Calhoun (British); Richard Marvin Chapman (American, Frank Broaker's partner in helping to get the Public Accountancy Act enacted); Henry Rigsdale McDonald Cook (British, President of the American Association of Public Accountants (AAPA)); William Sanders Davies (British, President of the American Association of Public Accountants (AAPA)); William Sanders Davies (British and President of the American Association of Public Accountants (AAPA) in the period 1897-1898; Robert Lethbridge Fabian (British, first President of the American Association of Public Accountants (AAPA)); Francis Gottsberger (American); Joseph Hardcastle

(British); Henry Harney (American); John Heins (American, two-term president of the American Association of Public Accountants (AAPA)); Charles Waldo Haskins (American); Charles Ezra Sprague (American, who drafted the Public Accountant Profession Act); Richard Fowler Stevens (American and twice president of the American Association of Public Accountants (AAPA)); William Henry Veysey (British); Walter Hugh Peyton Veysey (American, son of the former); and James Yalden (British, twice president of the American Association of Public Accountants (AAPA)).

## 2 Distinguished sole practitioners

The American society and, in particular, the profession of certified public accountant (CPA) is indebted to the efforts and services rendered by each of the above-mentioned individual practitioners of those times and, of course, also to many others who are not mentioned here.

In this book we will gloss the names of the following individual practitioners as public accountants: Frank Broaker; Joseph Hardcastle; Charles Waldo Haskins; Charles Ezra Sprague and James Yalden, in order to describe some of the life and vicissitudes of the early days, as well as detailing their personal contributions to the profession of public accountants, so that readers will know the environment and the difficulties they encountered, and how they resolved them.

### • **Frank Broaker. Champion of the public accountancy profession**

Frank Broaker was born on 16 March 1863 in Millerstown, Pennsylvania. His family moved to New York City in 1870, educating him in the public schools of Brooklyn and later at New York University.

In 1878 he entered the East Indian import and shipping business as a clerk where he worked for eight years, rising to the position of chief accountant because of his aptitude for accounting. His intelligence and accounting skills attracted the attention of John Roundey, a well-known Scottish accountant in New York City, who hired him in his firm and soon became his assistant because of the ease and speed with which he solved his clients' accounting problems. John Roundey continued to train him from 1884 to 1887, until he died in the latter year, leaving his business to Frank Broaker. Subsequently, he successfully solved various problems for British and European banking and financial institutions.

In April 1892 he formed a partnership with Richard Marvin Chapman, creating the public accounting firm Broaker & Chapman. This firm employed a large number of assistants.

He was very active in the American Association of Public Accountants (AAPA), serving as vice president from 1894 to 1896, and president in 1897.

He will always be remembered as the key man in the enactment of the law regulating the profession of public accountant in the State of New York in 1896, acting as a lobbyist for months in Albany, the capital of that State, until he finally achieved his purpose, spending many hours and efforts to do so.

In order to achieve his purpose, he had the good fortune to contact the Congressman of the State of New York, Henry Marshall (lawyer), 46 years old, a man knowledgeable in the business world, who supported by professional conviction the proposal of the bill from the first moment, achieving that the Assembly of said State approved it by 120 votes in favor against one against, a fact that, evidently, was a total success. He was also successful with Senator



Albert A. Wray (attorney at law), also a businessman, who got the New York State Senate to pass the bill by a unanimous vote of all its members.

Senator Wray had a patriotic vision of the enactment of the law, believing that the creation of the new profession of public accountant would make it easier for American industries in the future not to have to request the services of British chartered accountants, which was what was happening in those days.

Surely as compensation for his efforts in achieving the enactment of the law regulating the profession of public accountant in the State of New York, on October 15, 1896, the Board of Regents of the State University of New York appointed him as one of the three examiners to analyze the results of the exams to obtain the certificate of certified public accountant (CPA), and to approve or not the applications of those persons requesting exemption from the exam based on the experience they possessed, being appointed secretary of the Board of examiners.

In 1897 Frank Broaker was appointed president of the American Association of Public Accountants (AAPA) and, with the help of his partner Richard Marvin Chapman, they published a book entitled *The American Accountants' Manual*, with the aim of trying to help future candidates to obtain the certificate of certified public accountant in the exams required for it, a certainly laudable objective. The selling price of said manual was \$3, which was obviously charged by its author, Frank Broaker.

However, the fact that the first of the two sections into which the manual was divided was the answer, according to its authors, to the questions asked in the examination of December 15 and 16, 1896 in the cities of Buffalo and New York in order to obtain the certificate of *certified public accountant (CPA)*, was frowned upon by many people, who considered that a member of the Board of examiners should not participate in the preparation of a book of these characteristics. There was also another problem, different from the one mentioned above, which we will not comment on so as not to unnecessarily lengthen the subject.

So, after many debates, discussions and letters on the matter, the Board of Regents of the University decided to change the rules for the duration of the members of the Board of Examiners, reducing them to one year, with the result that a new Board of Examiners was appointed, in which Frank Broaker was no longer a member. But this issue brought tails, since Frank Broaker did not accept the reduction of his term of appointment, but this issue falls outside the objective pursued in this book (Previts, Gary John and Merino, Barbara Dubis.1979, p. 101; Webster, Norman E. 1954, pp. 244 and 336; Flesher, Dale L., Previts, Gary John.and Flesher, Tonya K. 1996, p. 254 and 336, and Campbell, David R. May 1987, p. 333); CPA Centennial Series: the First CPAs, Flesher, Dale L., Previts, Gary John.and Flesher, Tonya K. CPA Journal Online).

#### · **Joseph Harcastle. Teacher and academic**

Joseph Harcastle was born in 1827 in Skipton, Yorkshire, England. He attended primary school in a public school, competing with others in 1843 for a scholarship, which he obtained, moving to York to continue his studies.

As a teacher of non-university studies, he was in various places and countries between 1847 and 1864, including a school in New York City for six years. He was a high-level teacher, close and committed to his students, in such a way that the parents of his students liked him very much because they saw that their children learned a lot with him. One of his students knew that his father had a fiscal doubt - related to the *sinking fund* - and suggested that he consult

with his teacher Joseph Hardcastle. The latter solved the doubt and his father followed it, so that his solution was accepted by the tax authorities.

He began his activities as a *public accountant* in New York City in 1864. When The Institute of Accounts was created in New York City in 1882, he immediately enrolled in it, so that he was one of its founding members. His knowledge, mastery and aptitude for accounting matters earned him the appointment by the Institute of Accountants as its chief examiner of new members who wanted to join. He is credited with giving seven lectures on accounting subjects at the Institute of Accountants.

A truly curious and surprising fact was that Joseph Harcastle could perfectly well have applied for the "waiver provision", that is, to request exemption from taking the examination in 1896 to obtain the certificate of *certified public accountant* (CPA), based on his many years of practice as a *public accountant* in the State of New York, but he did not want to do so and, at the age of 69, he took the examination held in New York City on December 15 and 16, 1896, to demonstrate that he had the necessary knowledge to pass it.

Only 5 candidates sat for the examination, of which 3 passed and 2 failed. Joseph Hardcastle was the one who obtained the best marks, publicly proving that he possessed the knowledge to pass it, so that no one would doubt it, obtaining the CPA certificate No. 104 for the State of New York.

Another surprising fact of his life, and especially if we contemplate it with today's eyes and also with those of his time, was that in the year 1901 -when he was 74 years old-, he was hired by the newly created School of Commerce, Accounts and Finance of the University of the State of New York as professor of Principles and Practices of Accounting, where he remained until the date of his death in the year 1906, due to an accident. Evidently, as a teacher he must have been a phenomenon.

It is not surprising that, with this background, on April 24, 1905, the Honorary Degrees Committee of the State University of New York proposed that he be awarded the honorary degree of Master of Letters.

But, in our opinion, the most relevant aspect of Joseph Hardcastle was the publication of innumerable articles on accounting and complementary subjects. Nowadays, a professor like him would obviously be accepted in a Spanish Royal Academy due to the large number of articles published and his great research contribution. We have listed 65 works published by this author between the years 1882 and 1905, taking into account that they are not all the ones he published. Quite a success in his time. In other words, a scholar (Grant, Julia. 2021, p. 149; Flesher, Dale L., Flesher, Tonya K. and Previts, Gary John. 1996).

#### · **Charles Waldo Haskins. A very brilliant manager**

Charles Waldo Haskins -known as Haskins- was born in 1852 in the city of Brooklyn when it was still an independent city -since 1898 it was incorporated to the great city of New York-, being known as the City of Churches. He studied at a private school in Brooklyn and, later, his parents wanted him to become an industrial engineer and he entered The Polytechnic Institute of Brooklyn (now New York Tandon School of Engineering), where he graduated as an industrial engineer in 1867, at the age of 15.

The President of this institution, Dr. David H. Cochran, observing the great virtues of his pupil, especially his ability with mathematics, predicted a brilliant future as an engineer. In time, he was absolutely correct in his prediction of a bright future, but not as an engineer.

In fact, Haskins' idea was not to become an engineer, which is what his parents would have wanted, and when he finished his studies, he decided to rethink his future life by going to work in the accounting department of Frederick Butterfield & Co. in New York City, a company dedicated to imports, where he spent five years. During this time, he learned the workings of accounting and saw the great impact it had on the business world by observing, in particular, the information that could be obtained from it.

After this work experience, he wanted to leave the United States of America to "see the world" and spent two years in Paris studying humanistic subjects, as well as visiting other parts of Europe, where he found that accounting was more developed than in his own country.

On his return to the U.S., he worked temporarily in his father's banking and stock exchange company, located in Wall Street, where he acquired experience in this world and, once again, he verified the great importance of accounting in the business world, by expressing in figures the business operations carried out and the analysis that could be made of them.

Because of the extensive relationships he gained working in his father's firm, he went to work in the accounting department of the North River Construction Company, which at that time was building the New York, West Shore and Buffalo Railroad. Because of his great intelligence and previous experience, he was soon appointed supervisor of all the company's accounts. When construction of the West Shore was completed, he worked for the new railroad company as general accountant and auditor of payments until his railroad company was absorbed in 1886 by the New York Central Railroad, owned by Vanderbilt.

As a consequence, in 1886 he began to work as a sole practitioner, starting a new phase of his life that was to be a preparation for much more important missions. In fact, independently of his work as a public accountant for various clients, he also temporarily held executive positions in several companies, which gave him additional experience in the business world, in positions where he had to make decisions and in which he relied on the accounting information of these companies or on personal decisions, to face the solution of the problems and situations that he had to face.

One event marked his professional future: at the request of Secretary Foster of the Treasury Department, the U.S. Congress passed an Act on March 3, 1893 to create a Commission with a maximum duration of three years,

"organized exclusively to examine the methods and work in force in the executive departments of the administration, making recommendations for the application of new, better, more economical and more efficient methods to make them safer and more logical." (Haskins & Sells. 1923, p. 16).

This Commission consisted of three Senators and three Congressmen, being authorized to appoint three independent experts for the performance of such work, who were to be paid such amounts as the Commission deemed just and reasonable. Missouri Congressman Alexander M. Dockery was appointed to head the Commission, which is why it was known as the Dockery Commission.

The three independent experts appointed to carry out the work were Joseph W. Reinhardt, Charles Waldo Haskins and Elijah Watt Sells, who were not previously known to each other. However, the first, for reasons that are not relevant, resigned shortly after his appointment, so the other two experts -Haskins and Sells- were the only ones left to carry out the work.

The commissioned work lasted almost two years and was located in a room in the Treasury Department itself in Washington. A very important aspect was that from the first moment

they had the support and sympathy of President Cleveland and also of his entire government, which looked favorably on their task.

It is totally beyond the scope of this book to detail the many steps taken by the two independent experts in the development of their work, the difficulties they had on some issues, the long faces of some officials at times and the resistance they tried to put up to their work, but all this did not make them crumple and they finished it and very well.

The recommendations they proposed to improve in many aspects the methods applied in the U.S. Administration were clear, logical and full of common sense, allowing to simplify them, eliminate unnecessary work, standardize criteria, save taxpayers' money and increase the efficiency of said administration, in such a way that as they were delivered, they became rules and instructions of the government. Their work was by no means an audit, but rather a work on the methods applied by the U.S. Administration. Their task was completed on March 4, 1895, receiving from the Commission congratulations for a job well done and for the excellent services rendered to the State, and acquiring great prestige for their work.

On the same day, March 4, 1895, Charles Waldo Haskins and Elijah Watt Sells, who had worked together hand in hand and intensely on the same, achieving a very good relationship and a very broad complicity in the solutions to be proposed to Congress to improve the methods applied in the American administration, became partners and opened an office at number 2 Nassau Street, in New York City, under the name of Haskins & Sells, *public accountants*. A partnership was born that would eventually become one of the largest international accounting firms in the U.S., now Deloitte, by merger.

Charles Waldo Haskins was one of the founders of the American Association of Public Accountants (AAPA). He was not present at the time of its founding on December 22, 1886, but like many other *public accountants*, he joined immediately and was considered a charter member. He was also a member of the Institute of Accounts.

In October 1896 Haskins was appointed one of the three members of the Board of Examiners by the Board of Regents of the State University of New York, being chosen as its chairman, because of his prestige, preparation, charisma and also, why not say it, for his great ability for management issues. He served for 5 years in that position. His *Certified Public Accountant* (CPA) certificate number was 6 for the State of New York.

After the prompt creation on January 28, 1897 of the New York State Society of Certified Public Accountants (NYSSCPA) and its organization at the Waldorf Hotel in New York City on March 30, 1897, at which meeting John Hourigan and Francis Gottsberger were temporarily appointed president and secretary, Charles Waldo Haskins was subsequently named president of the society.

The New York State Society of Certified Public Accountants (NYSSCPA) took steps at the end of 1899 to create studies in accounting, business law, finance, economics, business practice, etc., at the State University of New York. After the pertinent steps were taken, on July 28, 1900, the New York University School of Commerce, Accounts and Finance was created by the University. Classes began on October 2, 1900. Charles Waldo Haskins was appointed dean of the faculty and professor of auditing and accounting history.

In 1901 Charles Waldo Haskins received from New York University the honorary degree of Master of Arts, in recognition of his distinguished services in education.

In 1902 Charles Waldo Haskins was appointed president of the Federation of Societies of Certified Public Accountants in the United States of America, a position he held for a very short time, since on January 9, 1903 he died of pneumonia at the age of 51.

Charles Waldo Haskins had the great honor of having his name distinguished in the Accounting Hall of Fame of the Ohio State University in 2000, with the number 65.

On April 15, 1959, the New York State Society of Certified Public Accountants (NYSSCPA) issued a statement authorizing the following:

**"Resolution of Dedication"**

WHEREAS, Charles Waldo Haskins was appointed a member of the first State Board of Certified Public Accountant Examiners and at the Board's first meeting was named President, a position he retained until his death, and thus became one of the founders of the profession in the State of New York, and

WHEREAS, Charles Waldo Haskins, realizing that any profession must be organized and self-regulating to further its aims and aspirations, was instrumental in founding The New York State Society of Certified Public Accountants and became its first President, and

WHEREAS, Charles Waldo Haskins, recognizing the profession's need for formal preparatory education, conferred with the Regents of New York University and finally achieved the establishment on October 2, 1900, of its School of Commerce, Accounts and Finance, of which he was named Dean and Professor of the History of Accountancy, and

WHEREAS, the Board of Directors of The New York State Society of Certified Public Accountants, after full deliberation, in acknowledgment of the debt owed to Charles Waldo Haskins for his contribution to the profession in securing legal recognition and regulation, in establishing self-imposed disciplines, in providing suitable preparatory education, and for his constant inspiration and continuing influence, it was

RESOLVED: That the Board of Directors formally authorize the dedication of the meeting rooms of the Society as the Haskins Room in perpetual memory of the man to whom so much is owed, and

BE IT FURTHER RESOLVED: That a copy of this resolution, suitably engrossed, be presented to the Haskins and Sells Foundation in honored memory of Charles Waldo Haskins and in grateful commemoration of this occasion.

IN WITNESS WHEREOF we hereunto subscribed our names and affixed the seal of The New York State Society of Certified Public Accountants" (Grant, Julia. 2021, p. 227).

**Charles Ezra Sprague. A lover of accounting**

Charles Ezra Sprague can be perfectly described as a character out of the ordinary. Indeed, multifaceted, in love with life and, of course, with accounting, he was one of the driving forces behind the regulation of the profession of *public accountant* in the United States of America, and also of accounting. His *curriculum vitae* speaks for itself:

He was born in 1842 in Nassau, New York. He earned a four-year bachelor's degree from Union College when he was 18 years old, then earned his master's degree and Ph. D. or doctorate in 1896 in his university studies. He was subsequently awarded an honorary doctorate in 1893 and another in 1910. He enlisted in the New York National Guard in 1862. He participated in the American Civil War where he was wounded and, due to his bravery in battle, was awarded the temporary rank of colonel in the New York Volunteers (1868). He subsequently taught at several U.S. military academies. He returned to the New York National Guard at two different periods, where he finally attained the rank of colonel for good. For this reason, many people affectionately called him Colonel Sprague.

In 1870 he went to work at the Union Dime Savings Bank, in New York, where his personality, intelligence and qualifications saw him rise very quickly from clerk, secretary, treasurer and finally president 1892, retaining that position until his death in 1912.

In 1880 he wrote a series of articles entitled "The Algebra of Accounting", in the magazine *The Bookkeeper*, where he was associate editor. These same articles were republished in the magazine *The Office* in 1889.

He was president of the Institute of Accounts of New York, created in 1882 and which grouped people related to or working as accountants, being a very active member of the same.

Colonel Sprague was one of the people who attended the meeting of December 22, 1886 in New York City, where the American Association of Public Accountants (AAPA) was founded, so he has the honor of being one of its founders.

He promoted, as a hobby of his that gave him great satisfaction, the adoption of a universal language -years later some people pretended it was Esperanto and finally it all came to nothing-, which he called Volapück, of which he wrote a book with its grammar, exercises and vocabulary. He spoke 6 languages and read many more.

In 1892 he participated in the creation of the New York School of Accounts within the State University of New York with the intention of obtaining an official title of Bachelor of Accounts, which would certify that the auditors who attended possessed a worthy and effective academic level to carry out their work in an adequate and rigorous manner. Subsequently, it became only a School of Accounts, which functioned only in the academic year 1893-1894, as we have discussed at length.

In 1895 and 1896 he was very active in defending the interests of the Institute of Accounts in trying to achieve a law in the State of New York that would recognize and regulate the profession of public accountant. It was he who drafted the law, which, with minor modifications, was finally approved in 1896 and became law. In the same year, 1896, he obtained his certificate of *Certified Public Accountant* (CPA), with the number 11 for the State of New York.

Colonel Sprague -along with Frank Broaker and Charles Waldo Haskins- were appointed by the Board of Regents of the State University of New York as the first members of the New York State Board of Examiners for the CPA certificate, in application of the new law creating the *Certified Public Accountant* (CPA) professional certificate. Possibly, his appointment as a member of that board was due to his friend Melvil Dewey, secretary of the Board of Regents of that University, because he wanted to have him there as he knew him well, had confidence in him and knew him to be a rigorous and fair man.

Colonel Sprague, along with others, was instrumental in making possible the creation of the School of Commerce, Accounts and Finance at the University of the State of New York in 1900. It must be recognized that Sprague was a man of great imagination and intelligence and when he wanted something he pursued it to the ends of the earth. Indeed, the following anecdote is not to be missed.

"Success, as so often the case during those formative years, was primarily due to the efforts of a single man. In this case, the man was Charles E. Sprague. He rented a faculty house at Washington Square for the summer, near the home of Henry M. McCracken, president of the New York University. Each night, Sprague managed to accompany McCracken on his habitual walk, and never failed to mention the value that a school of commerce would afford citizens of New York. In October 1900, New York University agreed to the proposal advanced by the New York State Society of Certified Public Accountants". (Previts, Gary John and Merino, Barbara Dubis. 1979, p. 139).

He taught accounting theory at this new school from its inception in 1900 until 1912, when he died. His subject was new in the United States of America, since the intention was to teach

accounting theory and not bookkeeping, which is what had been done up to that time. To do so, he had no choice but to develop new, non-existent material, which implied the investment of a great number of hours.

Joseph French Johnson, when he was dean of that School, portrayed Sprague's personality perfectly, when he stated the following:

“Very few realize what an important part Colonel Sprague played in the organization and development of the School of Commerce, Accounts and Finance of New York University.

Colonel Sprague was the first member of the faculty of New York University School of Commerce whom I heard speak from a lecture platform. It was in the winter of 1900-1901. I was then connected with the University of Pennsylvania and was spending a few days in New York in attendance on some convention. I had heard of New York University's new School of Commerce and, under the escort of Dean Charles Waldo Haskins, two of my colleagues and I paid it a visit. Colonel Sprague was lecturing on the philosophy of accounts to a class of forty men ranging in age from twenty to fifty who knew little about accountancy, but I was greatly impressed by the clearness of the lecturer's ideas, by the grace of his manner of speech, and by his most courteous responses to the questions asked now and then by some of the students. I remember that I was somewhat surprised when I was told after the lecture that Sprague was not by profession a teacher or writer, but was president of a savings bank and lectures without compensation because he loved his subject and had great faith in the future of the new school.

His students all loved him. On the platform he was intensely in earnest, always serious. I never heard of any student willingly cutting one of his lectures. He usually came to his lecture room in evening dress. If any of his colleagues had done the same there would have been comment and undoubtedly some chuckles among the students, but there was an instinctive feeling that Colonel Sprague came in full dress, not because of pride of appearance, but because he had a deep respect for his evening's task and wanted to do it as nearly right as possible. He was a most modest man, unassuming and without pretense of any sort.

After I came to the School in 1901 I had many delightful talks with Colonel Sprague in my office before and after his lectures. We never talked about accountancy, perhaps because he knew that I didn't know much about it. He liked to talk about the books that both of us had read, and about our college days and studies, and about what had to be done to make accounting a real profession. I remember being greatly impressed by his enthusiastic devotion to the welfare of his Alma Mater and by his almost boyish love of his old college fraternity. In fact, Colonel Sprague was one of the most human men I have ever met". (Grant, Julia. 1995, p. 27. *Early Development of Accountancy in New York State*). As mentioned above, quite a character.

As a consequence of the material he developed to teach his accounting theory classes, in 1907 Sprague published a book that consecrated him as a sacred cow of accounting, entitled *The Philosophy of Accounts*, a masterpiece of this discipline, and more in his time, in which he introduced his famous symbolic accounting equation of  $A = L + N$  (Assets = Liabilities + Net), which he had already published in his articles in 1880 and explained when he wrote his series of articles on "The Algebra of Accounting", mentioned above, an equation with which we all learned the basic knowledge of this discipline. Consequently, readers are now familiar with the "inventor" of the famous symbolic accounting equation: Colonel Charles Ezra Sprague.

In his book and also in his articles Sprague demonstrated an analytical and systematic mentality of great proportions, initiating, in our opinion, with his writings an authentic theory of accounting based on a systematic and deductive approach that was to have a profound influence on many later writers who followed in his footsteps, convinced of his rigor.

During his lifetime, Colonel Sprague published 43 papers, including articles and books, 5 of which were published in *The Journal of Accountancy*. James T. Anyon once wrote that



**Frank Broaker**  
Norteamericano  
CPA n° 1 por  
Nueva York



**James Thornley Anyon**  
Británico  
CPA n° 31 por  
Nueva York



**James Yalden**  
Británico  
CPA n° 138 por  
Nueva York



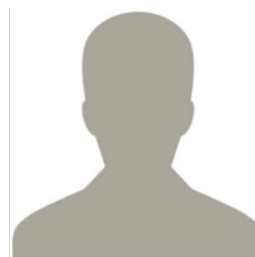
**Charles Waldo Haskins**  
Norteamericano  
CPA n° 6 por Nueva York



**Charles Ezra Sprague**  
Norteamericano  
CPA n° 11 por Nueva York



**John Heins**  
Norteamericano  
CPA n° 5 por  
Pensilvania



**Joseph Hardcastle**  
Británico  
CPA n° 104 por  
Nueva York

“Colonel Sprague was a lover of anything related to accounting and took a keen interest in the fortunes of the profession”. (Zeff, Stephen A. 1987, p. 70).

Sprague was honored in 1953 as number 10 in the Accounting Hall of Fame at Ohio State University for his significant contribution to the progress of accounting in the U.S. in the 20th century. In our opinion, a well-deserved honor (Grant, Julia. 1995, p. 164; Wikipedia; The Accounting Hall of Fame of the American Accounting Association; Zeff, Stephen A, May 1987; The Banking Law Journal, The State Board of Examiners; Flesher, Dale L, Previts, Gary John and Flesher, Tonya K, 1996).

· **James Yalden. An excellent public accountant**



James Yalden was born on March 26, 1842 in Bentworth, England. His studies are unknown, as there is no information about it. In 1866 he worked in London under the name of J. Yalden & Co. as an accountant, doing insolvency work and financial investigations, which were the typical work of the time. In 1876 he moved to New York and continued to work as a sole practitioner.

In the following years he had several partners, which is why the firm was called Yalden, Brooks & Donnell (1889); Yalden, Brooks and Yalden (1893); Yalden, Brooks & Walker (1893); Yalden, Walker & Co. (1896); Yalden, Walker & Weiss (1900), and James Yalden & Co. in 1902.

As can be seen in Chart 13, James Yalden was a man who was involved in practically every aspect of AAPA from the time of its constitution in 1886, since he was already one of its founders. Therefore, he was a very stimulating person in terms of the development and advancement of both auditing and AAPA.

He was the second president of AAPA, immediately after the death of its first president Robert Lethbridge Fabian on November 16, 1887, and became president again on February 6, 1892. He was a permanent member of the AAPA Council from the time of its incorporation until 1905, when he died. Consequently, few people invested as much time as James Yalden in the affairs of the AAPA and the profession of public accountancy in the USA.

Here are two opinions about James Yalden: "James Yalden was a good auditor" (Anyon, James T. 1925 (b), p. 85), and "Mr. James Yalden is the senior partner of the firm of Yalden, Brooks & Donnelly, probably the largest and best-known firm of public accountants in the United States. He has been connected with some large matters in accountancy, for instance the celebrated gas investigation in which he was employed by the State, and many others too numerous to mention. His firm has recently completed a long investigation of the whole of the municipal accounts of the City of Detroit". (Grant, Julia. 2021, p. 52). Statement by Henry R. M. Cook to the Board of Regents of the State University of New York when the AAPA was applying for authorization to obtain the New York School of Accounts. Early Accounting Firms in New York City. Committee on History. The New York State Society of Certified Public Accountants. Foundation for a Profession. 2021.

#### *The strange case of James Yalden*

As mentioned above, James Yalden had been acting as a *public accountant* in New York City since 1876. When the law regulating the profession of public accountant was enacted on April 17, 1896, James Yalden, in accordance with the provisions of Section 3 thereof, requested - as did many other *public accountants* - exemption from taking the examination to obtain the certificate of *certified public accountant* (CPA), based on the experience of his many years of work as such, a fact that he could prove without any problem.

However, James Yalden found that someone spread the word that he had to leave his home country, Great Britain, quickly so that the courts would not act against him as a result of his performance in a professional case. This was only a rumor, since no one ever proved that James Yalden was charged in any case in Great Britain, nor that the courts there had informed the U.S. courts that there was a case against him for which he had to answer.

But since Section 1 of the Act stated that any person wishing to become a *certified public accountant* (CPA) must be a person "of good moral character," the members of the Board of Examiners decided not to process his application, pending further information, so that after all known *public accountants* were certified as CPAs, James Yalden, who had been twice president of AAPA and a member of its Council for many years, and a person widely known

to all *public accountants* in New York State and other districts, had not received a response to his application. A truly bizarre case.

We must think, logically, that in such a situation, James Yalden should have requested the Board of Regents of the State University of New York to clarify the delay of his application and to answer him about the result of the same, and the Board of Regents had no choice but to take action on the matter, requesting the Board of Examiners to resolve the matter.

The Board of Examiners at its meeting on November 25, 1898 resolved as follows:

“Resolved that the Honorable Board of Regents of University of the State of New York be advised that after careful consideration of all the facts and circumstances connected with the application of James Yalden for a certificate of Certified Public Accountant the judgment of this Board of Regents is that such certificate should be granted to him, and that this Board so recommend.

In submitting the said Resolution, the following reasons were advanced:

First: Mr. Yalden has been in this country some twenty-two years, actively engaged as a Public Accountant, during which time he has been called upon to do much important work both of a public and private nature and has succeeded in building a large and reputable clientele, and it does not appear his character has been impeached or questioned in any way during this time. This fact should weigh strongly in his favor.

Second: Regarding the rumors current in some quarters respecting his character previous to his coming to this country upward of twenty-two years ago this Board is quite justified in ignoring them inasmuch as no charges lie against his application as it comes before this Board for consideration nor does any person appear to contest his standing as an Accountant or to reflect upon his moral character.

Third: There are no charges before this Board which can properly be considered as evidence against his good moral character or which can legally or otherwise justify this Board withholding its recommendation in his favor.

Fourth: Mr. Yalden has for many years been very active in promoting the interests of the Accounting Profession in this country and in justice he is deserving of proper recognition for the same.

Fifth: Mr. Yalden application comes before this Board accompanied by endorsements as to his moral character and standing as an accountant from gentlemen of the very highest standing in the business community.

On vote the Resolution was lost by two ayes and one nay”. (Webster, Norman E. 1954, p. 256).

It should be noted that the rule at that time was that the vote of the three members of the board of examiners had to be positive, which is why, since there was one dissenting vote, the application was denied. The aforementioned Resolution was signed by the Secretary of the Board of Examiners, John Rice Loomis, being formed by Charles Waldo Haskins, Chairman, John Rice Loomis, Secretary, and Charles Ezra Sprague, member.

The certificate issued by the secretary of the Board of Examiners, John Rice Loomis explicitly states that, in the vote, the Resolution was lost by two votes to one, “suggests that the Regents may have requested that the Board’s action be unanimous at least upon applications for certificates without examination. That surmise was confirmed by the record of the Regents’ meeting on December 15, 1898 (V. 10, p. 498) as follows:

C.P.A. Certificates. The details in the case of James Yalden, a candidate for the C.P.A. certificate, were presented, and after full discussion, it was Voted, to suspend the rules requiring unanimous recommendations of the State Board of C.P.A. Examiners, and to grant Mr. Yalden a certificate in accordance with the exemption provided in the Act of 1896, Chapter 312, Section 3 upon recommendation of a majority).

It is really curious that a man like James Yalden, who gave everything, absolutely everything, for the profession of *public accountants* in the U.S., had problems in obtaining his Certified

Public Accountant (CPA) certificate, when he met all the legal requirements for it. In our opinion, it is very clear to us that there was a black hand against him. But, in the end, he achieved his purpose of obtaining it (CPA No. 138 for the State of New York), as it had to be.

Additionally, we have read in several documents, that James Yalden was a very educated man, with a great personality, who treated everybody very well and was a very aggressive person commercially to obtain clients (The Banking Law Journal. James Yalden).

### 3 Public Accounting Firms

In the directories of the cities of New York, Philadelphia, Chicago and Boston, among others, there are names of partnerships of *public accountants* that normally grouped two or three *public accountants* that, with time and due to differences among the partners, dissolved and were extinguished in the same manner in which they had been created. In addition, many of the names of these partnerships were formed by totally unknown public accountants, in the sense that they had not participated in any activity of the Institute of Accounts or the American Association of Public Accountants (AAPA), which is why we will not detail them as they do not add any value to the objective of this book.

The list of *public accountants' firms* that follows (see Chart 14) is therefore subjective, as it does not include all *public accountants' firms*, but it does have the value of being made up of the best-known *public accountants* and those that we can reasonably keep track of, which is the interesting thing. On the other hand, most of the firms are located in the State of New York, since this is the State where the law recognizing and regulating the profession of *public accountant* was first enacted in the United States of America and, consequently, where the great majority of public accountants' firms are located. This chart also details the number of CPAs that some of their members obtained after the enactment of the *public accountant* profession law.

For readers interested in the development and establishment of the profession of public accountant in a particular State of the Union, there are books that deal with this subject in detail.

**CHART 14. Public Accounting Firms up to the year 1896**

Year of Establishment	Name of the society	Name of partners and employees
1873	Veysey & Fabian Accountants	· William Henry Veysey (British). <b>1</b> · Robert Lethbridge Fabian (British).
1885	Veysey & Veysey	· Walter Hugh Peyton Veysey (American). CPA No. 192 for the State of New York.
1896	James N. Kelley	· James Nicholas Kelly (Irish). CPA No. 49 for the State of New York. · George Wilkinson (British). CPA No. 5 for the State of Illinois y CPA No. 302 for he State of New York.
1876	J. Yalden & Co. New York	· James Yalden (British) CPA No. 138 for the State of New York. <b>2</b>
1889	Yalden, Brooks & Donnelly	· William M. Brooks (British). · George W. Donnelly (British).
1893	Yalden, Brooks & Yalden	· Louis Yalden (British) Brother of James Yalden.
1893	Yalden, Brooks & Walker	· Alfred Percy Walker (Canadian). CPA No. 14 for the State of New York.
1896	Yalden, Walker & Co	· Richard Nevile Hutchinson (British). CPA No. 48 for the State of New York.
1883	Barrow, Wade, Guthrie & Co.	· To be discussed further below <b>3</b>

**CHART 14. Public Accounting Firms up to the year 1896**

Year of Establishment	Name of the society	Name of partners and employees
1884	Andrew B. Martin & Clarence A. Martin	<ul style="list-style-type: none"> <li>• Andrew B. Martin (Irish). CPA No. 24 for the State of New York.</li> <li>• Clarence A. Martin (American). CPA No. 25 for the State of New York.</li> </ul>
1885	Blackman & Forbes (Los Angeles)	<ul style="list-style-type: none"> <li>• William Robert Blackman (British). CPA No. 38 for the State of California.</li> <li>• Alexander Forbes (British).</li> </ul>
1889	Heins & Whelen (Philadelphia)	<ul style="list-style-type: none"> <li>• John Heins (American). CPA No. 5 for the State of Pennsylvania. <b>4</b></li> <li>• Kingston G. Whelen (unknown nationality).</li> </ul>
1892	Heins, Whelen, Lybrand & Co.	<ul style="list-style-type: none"> <li>• William M. Lybrand (American). CPA No. 518 for the State of New York.</li> </ul>
1896	Heins, Lybrand & Co.	<ul style="list-style-type: none"> <li>• Adam Averell Ross (American).</li> <li>• T. Edward Ross (American).</li> <li>• Robert Hiester Montgomery (American). CPA No. 467 for the State of New York.</li> <li>• Charles W. Walters (American).</li> <li>• Charles H. Highley (American). CPA No. 14 for the State of Georgia.</li> </ul>
1890	Price, Waterhouse & Co.	<ul style="list-style-type: none"> <li>• To be discussed further below.</li> </ul>
1890	Deloitte, Dever, Griffiths & Co.	<ul style="list-style-type: none"> <li>• To be discussed further below.</li> </ul>
1890	Patterson & Corwin	<ul style="list-style-type: none"> <li>• Andrew Stuart Patterson (American) CPA No. 41 for the State of New York.</li> <li>• Hamilton Stewart Corwin (American). CPA No. 56 for the State of New York.</li> </ul>
1890	Howard, Bartlett & Co. New York	<ul style="list-style-type: none"> <li>• Thomas P. Howard (American). CPA No. 75 for the State of New York.</li> <li>• Farquhar J. MacRae (American). CPA No. 23 for the State of New York.</li> </ul>
1891	Duggett & Ryan	<ul style="list-style-type: none"> <li>• Thomas P. Ryan (American). CPA No. 63 for the State of New York.</li> </ul>
1891	John W. Francis & Co. (Philadelphia)	<ul style="list-style-type: none"> <li>• John W. Francis (American). CPA No. 74 for the State of New York and CPA No. 4 for the State of Pennsylvania.</li> </ul>
1893	J.W. Francis & Co. Francis & Sterrett	<ul style="list-style-type: none"> <li>• Joseph Edmon Sterrett (American). CPA No. 12 for the State of Pennsylvania and CPA No. 483 for the State of New York. <b>5</b></li> </ul>
1891	Hart Bros, Tibbetts & Co. New York and Denver	<ul style="list-style-type: none"> <li>• Ernest Joseph Hart (British).</li> <li>• Arthur W. Smith (British). CPA No. 44 for the State of New York.</li> </ul>
1891	Smith, Reckitt & Co. New York	<ul style="list-style-type: none"> <li>• Ernest Reckitt (British). CPA No. 61 for the State of New York.</li> <li>• Andrew Allen Clarke (Northern Irish). CPA No. 15 for the State of New York.</li> </ul>
1895	Smith, Reckitt, Clarke & Co.	<ul style="list-style-type: none"> <li>• Thomas Cullen Roberts (British). CPA No. 154 for the State of New York.</li> <li>• Thomas Ernest Cullen Roberts (British). CPA No. 26 for the State of New York.</li> <li>• Charles Coleby Reckitt (British). CPA No. 108 for the State of New York.</li> <li>• William Foster Oakes (British CPA No. 6 for the State of New Jersey).</li> </ul>
1892	Whitehead Clerihew & Briggs	<ul style="list-style-type: none"> <li>• John W. Whitehead (American). CPA No. 103 for the State of New York.</li> </ul>
1894	Whitehead Clerihew & Co.	<ul style="list-style-type: none"> <li>• Alexander C. Clerihew (American). CPA No. 90 for the State of New York.</li> <li>• Harry Allen Briggs (American).</li> </ul>

**CHART 14. Public Accounting Firms up to the year 1896**

Year of Establishment	Name of the society	Name of partners and employees
1892	Bergtheil, Horley & Co.	· Louis Micheal Bergtheil (British).
1892	Bergtheil, Cook & Co.	· Thomas R. Horley (British). CPA No. 106 for the State of New York.
1896	Brummer & Co.	· Henry Rigsdale McDonald Cook. CPA No. 107 for the State of New York. · Leon Brummer (American). CPA No. 88 for the State of New York.
1892	Broaker & Chapman	· Frank Broaker (American). CPA No. 1 for the State of New York. · Richard Marvin Chapman (American). CPA No. 2 for the State of New York. · David Rollo (British). CPA No. 27 for the State of New York. · Thomas Cullen Roberts (British). CPA No. 154 for the State of New York. · Thomas Ernest Cullen Roberts (British). CPA No. 26 for the State of New York.
1892	Waud & Edmonds	· David Jinkens Edmonds (British). CPA No. 93 for the State of New York.
1894	Waud, Edmonds & Penney	· John W. Penney (American). CPA No. 100 for the State of New York.
1895	Waud, Edmonds & Bouton	
1893	Abrahams, Smyth, Williams & Co.	· John Wilkins Abrahams (British). CPA No. 66 for the State of New York.
1895	John W. Abrahams & Co.	· Thomas Bagot (British). CPA No. 45 for the State of New York.
1896	Bagot & Abrahams	· Cleveland H. Smyth (British).
1893	William Trenholm, Teele & Co.	· William Trenholm (American). · Arthur Wellington Teele (American). CPA No. 13 for the State of New York.
1894	William Trenholm, Teele & Dennis	· Rodney Strong Dennis (American). CPA No. 5 for the State of New York.
1895	Teele & Dennis	
1894	Conant & Crook	· Leonard Hubbard Conant (American). CPA No. 3 for the State of New York. · Edward Rutherford Conant (American). CPA No. 7 for the State of New Jersey.
1894	W. N. Reid & Co. Boston	· William Norton Reid (British).
1894	Byers & Reid. New York	· Hudson Campbell (American). CPA No. 70 for the State of New York.
1896	Reid & Campbell. New York	· Edmun Wilcox (British).
1894	Broads Paterson & Co (Chicago)	· Frank McMichael Boughley (British). <b>6</b>
1894	MacRae & Cowan	· Farquhar J. MacRae (American). CPA No. 23 for the State of New York. · John D. Cowan. · Charles Both (British). CPA No. 34 for the State of New York.
1894	Stuart & Young (Chicago)	· To be discussed further below.
1894	Niles & Niles	· Henry Anderson Niles (American). CPA No. 59 for the State of New York.
1895	Haskins & Sells	· To be discussed further below.
1895	McGibbon & Lewis	· Brownell McGibbon (American). CPA No. 7 for the State of New York.

**CHART 14. Public Accounting Firms up to the year 1896**

Year of Establishment	Name of the society	Name of partners and employees
1895	Scott & Housel	· Frank M. Scott (American).
1895	Edward W. Hooke & Co.	· Edward W. Hooke (British). CPA No. 38 for the State of New York.
1895	Kavanagh & Sullivan	· John B. Kavanagh (American). CPA No. 96 for the State of New York. · Thomas J. Sullivan (American). CPA No. 83 for the State of New York.
1896	Thomas C. Roberts & Son	· Thomas Cullen Roberts (British). CPA No. 154 for the State of New York. · Thomas Ernest Cullen Roberts (British). CPA No. 26 for the State of New York.
1896	Harney, Cady & Co. Harney, Scott & Co. Henry Harney & Co.	· Henry Harney (American). CPA No. 18 for the State of New York. · Charles E. Cady. · Wilbur A. D. Scott. · Herbert W. Hills. · William E. Kastendike. · John Kastendike. · Edward Glardon. · Sylvester E. Strickland. · William Cockcroft. · Farquhar J. MacRae (American). CPA No. 23 for the State of New York.

↑ Source:

- "The American Association of Public Accountants: Its First Twenty Years 1886-1906". Norman E. Webster. American Institute of Accountants. 1954.
- "Directory of Early American Public Accountants". A.C. Littleton. 1942.
- "The Public Accountants of New York City". Business, June 1896.
- "Certified Public Accountants of the state of New York. June 1920".
- "The New York State Society of Certified Public Accountants. Foundation for a Profession". Julia Grant. 2021.

↑ Observations:

1. Some of the first meetings of the Council of the American Association of Public Accountants (AAPA) were held at the office of Veysey & Veysey in New York City. This was due to the fact that Robert Lethbridge Fabian, who was its first president, had been a partner in that firm in previous years and the firm's senior partner, William Henry Veysey, was in agreement.
2. When James Yalden was president of AAPA, most of the meetings of the Council were held in his firm's office in New York City.
3. The incorporation was held on December 22, 1886, at the office of Barrow, Wade, Guthrie & Co. in New York City. Its partner Edwin Guthrie (British, chartered accountant and resident in the city of Manchester, Great Britain) was capital in its constitution. Barrow, Wade, Guthrie & Co. merged in 1950 with Peat, Marwick, Mitchell & Co. and lost its name.
4. William M. Lybrand, the brothers Adam Averell Ross and T. Edward Ross and Robert Hiester Montgomery - who worked with the rigorous public accountant John Heins - founded, on January 1, 1898, the society of public accountants Lybrand, Ross Brothers & Montgomery, in the city of Philadelphia. In 1957 they merged with the British chartered accounting firm Cooper Brothers, creating Coopers & Lybrand. The latter company merged in 1998, exactly one century after the creation of LRB & Montgomery, with Price Waterhouse & Co. creating the current PricewaterhouseCoopers.
5. The partnership of Joseph Edmond Sterrett (American) merged with Price, Waterhouse & Co. on July 1, 1907, becoming a partner of the same. Sterrett, who was a man of great personal and professional worth, was a great asset to Price, Waterhouse & Co. (1907-1934). He was president of the AAPA in the 1908-1909 and 1909-1910 terms, and in the year 1953 he was honored to be distinguished in the Accounting Hall of Fame at Ohio State University with No. 11.
6. Broads Paterson & Co. a renowned British firm of chartered accountants, established in 1869, merged with the American firm of certified public accountants Arthur Young & Co. in 1923.

#### 4 Distinguished Public Accounting Firms

As we have done with sole practitioners, we will now list the names of certain firms of public accountants on the basis of our subjective criteria, and we will do so according to the date of their creation: Barrow, Wade, Guthrie & Co. (1883); Deloitte, Dever, Griffiths & Co. (1890); Price, Waterhouse & Co. (1890); Stuart & Young (1894) and Haskins & Sells (1895) up to December 31, 1896, which is the limit of the year analyzed, although we will make some comments up to the present time to know their current situation.

It should be noted that the British auditing company Hart Bros, Tibbetts & Co., located in London, also opened an office in New York City in 1891, and later another one in the city of Denver, where it audited Denver United Breweries, Ltd. The same applies to the British auditing firm Broads Paterson & Co., which opened an office in Chicago in 1894, but of which we have no additional information.

It should be noted, lest anyone should think that we have forgotten them, that the public accounting firms Peat, Marwick, Mitchell & Co. (1897); Lybrand, Ross Bros & Montgomery (1898); Touche, Niven & Co. (1900); Ernst & Ernst (1903) and Arthur Andersen & Co. (1913), since they were created after 1896, are not analyzed in this book because they fall outside the scope of the period analyzed.

##### · **Barrow, Wade, Guthrie & Co.**

Barrow, Wade, Guthrie & Co. was established in New York in October 1883. To our knowledge, it was probably the first British auditing firm established in the United States of America. Its founders were John Wylei Barrow (American); Charles Henry Wade and Edwin Guthrie<sup>12</sup>, the latter two British chartered accountants, partners of the auditing firm of the same nationality, Thomas, Wade, Guthrie & Company, with offices in Manchester and London.

The creation of this American auditing firm was due to the fact that Edwin Guthrie traveled professionally to the U.S “acting in the capacity of receiver in the case of a certain bankrupt financial concern in England, to enquire into the value and status of certain property and assets which the bankrupt concern owned on this side”. (Anyon, James T. 1925 (a), p. 2) and took the opportunity to create the American society of public accountants, because his opinion was that this profession had a great future in that country and a great potential for growth.

As we have seen above, Edwin Guthrie was one of the driving forces-probably the instigator-of the creation of the AAPA in December 1886, which was the first and only professional association of *public accountants* in the United States of America. This fact clearly demonstrates, as mentioned above, the great influence that British *chartered accountants* had in the early days of the auditing of accounts in that country.

James Thornley Anyon, a British chartered accountant, arrived in New York in October 1886 together with Edwin Guthrie, and was named partner of the new American society in 1887. He also played an active part in the creation of the AAPA, being present at the aforementioned meeting of December 22, 1886, and was a member of its first Council after its foundation, according to an agreement adopted on February 8, 1888.

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12 It should be noted that Charles Henry Wade and Edwin Guthrie were, on behalf of British public accountants located in the city of Manchester, the two applicants from this city for the Royal Charter of May 11, 1880, which created the Institute of Chartered Accountants in England and Wales (ICAEW). See Chart 3.

“The clients the firm had at this time were very few. The one we prized the most, and felt proud in keeping, was the New York Ontario & Western Railway Co. This company was the first railroad in the United States to employ public accountants to act as auditors and to certify to the correctness of its financial statements to its shareholders... Other clients we had were the Royal Insurance Co. of Liverpool; the British and Foreign Marine Insurance Co.; the London Assurance Corporation; the Sun Fire office; York Street Flax Spinning Co., and several others”. (Anyon, James T. (b), p. 81).

Very interesting, in our view, are the recollections set forth by Anyon of the early days in his American partnership, which read as follows:

With this very moderate volume of business as a nucleus, I launched out as the head of the firm on my new career as a practicing accountant in this great United States of America, full of ambition, a love for my work and a determination to make good...

By reason of the limited amount of business my firm had to start with, as already stated, I could not afford to engage any assistance in the office, beyond the employment of an office boy. I was, therefore, called upon to fill the several roles and discharge the duties of the following offices: accountant, acting auditor, correspondent, cashier (this latter position did not take up much of my time for reasons quite obvious), firm bookkeeper, writer of reports, traveler, time-keeper, computer of customers' bills for service and, in fact, everything but dusting the office desks, filling the ink stands, mailing the letters and doing other minor things which were the duties of the boy.

For the whole of this service, and the fact that I was a partner, my salary was fixed at \$208.33 a month. My total annual income, therefore, was salary, \$2,500, and a proportion of the net profits of the firm, if there were any; and this I had very grave doubts about at the time. However, it was very gratifying to find at the end of the first six months, viz., June 30, 1887, the operation of the firm including all the departments above referred to, resulted in a gross service credit of \$4,842.08 and a net profit, after charging my salary of \$1,250, of \$2,133.50. I state these particulars just to show how simple and moderate the business of an accounting firm was in those years compared to the many and wonderful firms of today”. (Anyon, James T. (b), p. 81).

Anyon was secretary of the AAPA in the years 1887 and 1888.<sup>13</sup> He was one of 14 members chosen by the AAPA to try to get the New York State to enact a law to create the *Certified Public Accountant* (CPA) professional certificate, which was finally achieved in 1896.

The partners or employees who worked in this *public accounting* firms (let's say auditors) in the USA from its inception until December 31, 1896, according to the information we have been able to gather from various sources, were the following:

- John Wylie Barrow (American). He was an actuary. He died in 1886.
- Oscar E. Morton (American). Later CPA No. 78 for the State of New York.
- James Thornley Anyon (British). Later CPA No. 31 for the State of New York.
- William John Bonner (British). Later CPA No. 86 for the State of Illinois.
- Charles Gray (British).
- Ernest Reckitt (British), in the Chicago office. Later CPA No. 61 for the State of New York.
- David Rollo (British). Later CPA No. 27 for the State of New York.
- Edward Henry Sewell (British). He was an actuary.
- Allen Rich Smart (British), in the New York and Chicago offices. Later CPA No. 1 for the State of Illinois.
- George Wilkinson (British), in the New York and Chicago offices. Later CPA No. 5 for the State of Illinois.
- Arthur W. Smith (British), in the New York and Chicago offices. Later CPA No. 44 for the State of New York.

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13 See Appendix 1 below



- Samuel Hardman Lever (British). Later CPA No. 40 for the State of New York. Years later he returned to Great Britain and received the title of Baron.

The initial British partners of this American partnership, Charles W. Wade and Edwin Guthrie never worked in their American firm in the USA.

In 1950, the auditing firm Barrow, Wade, Guthrie & Co. merged with Peat, Marwick, Mitchell & Co. and lost its name.

- **Deloitte, Dever, Griffiths & Co.**

The British William Welch Deloitte began his solo practice as an accountant (public accountant in the United States of America) in the city of London in the year 1845 at the age of 27, in the Victorian era.

“The London Post Office directory of 1845 shows that there were 205 firms of accountants practicing in the City of London, the leading firm being Quilter & Ball; nearly three-quarters of a century later their practice, then carried on under the name of Welton & Bond, was absorbed by Deloitte”. (Deloitte, Plender, Griffiths & Co. 1958, p. 3).

Due to the increase in existing work, in the year 1857 he entered into partnership with Thomas Greenwood, and the name of the partnership was Deloitte & Greenwood. In 1862 a third partner, Henry Dever, entered, and the name of the partnership was changed to Deloitte, Greenwood & Dever. In 1867 a new partner, Alfred Richard Hollebone, joined the firm, and the name was changed to Deloitte, Dever, Hollebone & Co. In 1869 a new partner entered, John George Griffiths, and again the name of the partnership changed to Deloitte, Dever, Hollebone & Griffiths. And when Hollebone retired in 1873, the name was changed to Deloitte, Dever, Griffiths & Co. which name was retained until 1905.

In the years 1888 and 1889 Deloitte conducted numerous investigations in the United States of America, specifically, in the cities of New York, Denver, Kentucky, Brooklyn, Philadelphia, Boston, Chicago and Minneapolis, to perform the work required of the British investment in brewing companies in those years and also in other clients.

“Whilst on an investigation leading to a brewery amalgamation John Griffiths’s younger brother, Percival Davis Griffiths, who had joined the staff in 1880, suggested he should remain in New York and practice on his own account...Nothing further appears about the suggestion made by P.D. Griffiths”. (Deloitte, Plender, Griffiths & Co. 1958, p. 47).

What is very clear is the fact that in those years the work of this firm increased significantly in the U.S.A. and there came a time when the Deloitte company in London considered opening a branch office in New York, in order to participate in the development of the increase of companies created and investments made by British investors in that country.

In 1890 Deloitte opened a branch office in New York City, appointing Edward Adams and Percival Davies Griffiths - the younger brother of John George Griffiths, a very important partner of the firm - as managers of the new office. Years later, the two were made partners in the partnership, Edward Adams remaining in New York, while Percival Davies Griffiths returned in 1898 to the London office.

Deloitte conducted among others, investigations into brewing companies in:

- New York Breweries Company, Limited, which included the following two companies: H. Clausen and son Brewing Company, and Flanagan, Nay and Company (sterling capital 930,000).

J.F. Betzand and Son, in Philadelphia (capital in pounds sterling 550,000), which were the first investment developments commissioned by the British promoter Henry Osborne O'Hagan and, for this reason, during the following years it was the British firm of chartered accountants with the largest volume of business in the U.S. Deloitte opened a new branch in the city of Chicago in 1891. Other important work at this time was with

“the Westinghouse Electric and Manufacturing Company and National Cordage Company for bankers' reorganization committees”. (Wilkins, Mira. 1989, p. 537).

In November 1890, the crisis provoked by the British investment bank Baring Brothers & Co. took place in London, which caused a financial upheaval of great proportions in that city and also in Great Britain. In fact, the aforementioned bank had granted the Republic of Argentina between 40% and 50% of its loans in an attempt to modernize the country's structures.

Instead of using the money received for the intended purposes, the Argentine government invested it in speculative assets, generating runaway inflation in the country and an excessive monetary mass, which, together with a disastrous political management of the country's public finances, led to the bankruptcy of the Banco Nacional and the suspension of the country's payments for four years.

The impact of this event on the British bank Baring Brothers was enormous. To prevent it from going bankrupt due to the granting of such a large volume of bad loans, the Bank of England led a consortium to rescue it by providing enough money to prevent the probable collapse of the London bank, with all its consequences for the economy of Great Britain. The effect of this financial crisis in Great Britain was, unsurprisingly, the significant reduction of its investments in the United States of America, slowing down, consequently, the development of the profession of *public accountant* in that country due to the decrease of its work.

In addition, in 1893, the so-called "Panic of 1893" took place in the United States, which was a depression that began in that year and ended in 1897. Its effect had a significant impact on all sectors of the U.S. economy and represented a significant slowdown. Some pearls of this panic, which as all panics originate from a situation of fear, were the following: wheat prices in the market plummeted; people, out of fear, rushed to the banks to withdraw the money they had invested to avoid greater evils and the banks, having much less money available, could not grant credit to their customers, generating a credit contraction of great proportions, which had a total impact on the economy.

The financial panic provoked in London by the investment bank Baring Brothers & Co., combined with a slowdown in U.S. and European trade, caused foreign investors to sell U.S. shares of the companies in which they had invested to obtain money, in order to buy gold as an investment asset, which was considered to be safer than paper money. All this became a Molotov cocktail. Unemployment in the U.S. industrial sectors reached 19%, an obviously very high figure.

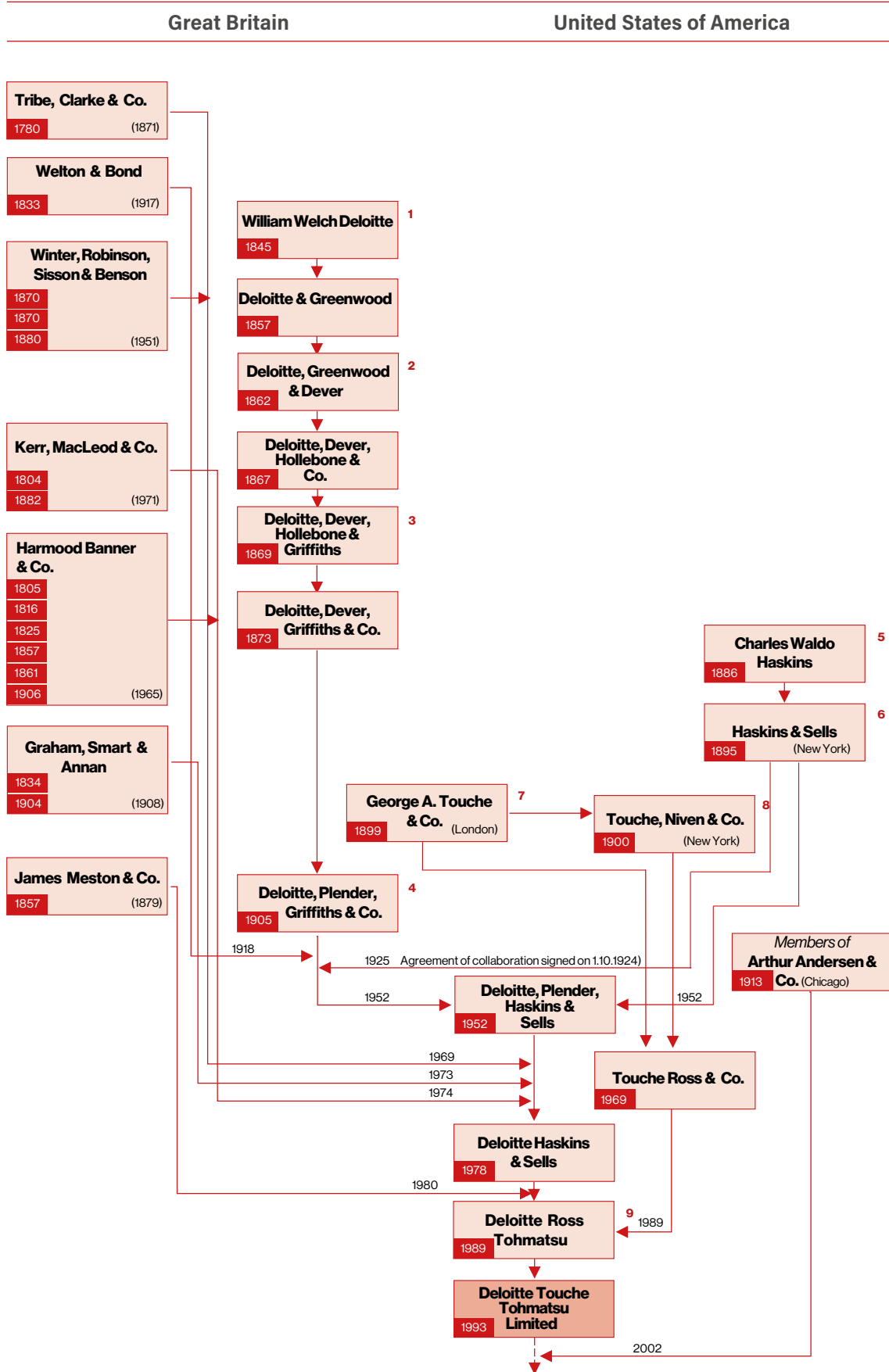
The panic of 1893 led to the closure of many American businesses and obviously also affected the clients of the *public accountants*, including Deloitte, which had no choice but to reduce its staff to adapt to the new market situation.

Apart from Deloitte's two managers in New York City, other professionals who worked for the firm until 1896 were the following: Charles Griswold Bourne (French national), later CPA No. 558 for the State of Indiana; James Grant (British), later CPA No. 206 for the State of New York; and Vivian Harcourt (British), later CPA No. 18 for the State of Ohio.

In order to provide readers with information on the development and evolution of the Deloitte partnership up to the present day, a subject that may surely be of interest to many "Deloittes" and "ex-Arthur Andersen", and also to others, we summarize below such evolution, obviously in synthetic and necessarily schematic terms, which is based on:

- a. The absorption or merger of many *chartered accountants'* firms in Great Britain in the 20th century.
- b. The merger with the American firm of *certified public accountants* Haskins & Sells.
- c. The merger with Touche Ross & Co. which had its main centers in Great Britain, the United States and Japan.
- d. The integration of many members from many countries of the former Arthur Andersen & Co., derived from the problem that this firm had with the "Enron case" in 2002 in the United States.

CHART 15. Evolution of the firm Deloitte.



↑ Source:

Own elaboration by adaptation of the Deloitte Haskins & Sells family tree prepared by the English historian Peter Boys, published in *Accountancy*, April 1998, p. 118-9 (ICAEW. Deloitte Haskins & Sells) and its update up to the present date.

- "Genealogy of the Big 4-2021". Internet.
- "Presidents of the ICAEW".
- "Deloitte". Wikipedia.
- "Deloitte & Co. 1845-1956". Sir Russell Kettle. Deloitte, Plender, Griffiths & Co. 1958.
- "Sir George Touche. 1861-1935".
- "The History of German Public Accounting Profession". Hugh B. Markus. 1997.
- "The History of Foreign Investment in the United States to 1914". Mira Wilkins. 1989.
- "Family tree de Touche Ross (ICAEW)" elaborado por el historiador inglés Peter Boys, publicado en *Accountancy*, December 1989, p. 134-5.
- "Haskins & Sells. Our First Seventy-Five Years. 1895-1970". Haskins & Sells. 1970. Arthur Bevins Foye.

↑ Observations:

1. William Welch Deloitte was a member of the first Council of The Institute of Accountants in London, created in 1870, and was also a member of the first Council of the Institute of Chartered Accountants in England and Wales (ICAEW), created on May 11, 1880, and its president in the period 1888-89.
2. Henry Dever was a member of the first Council of The Institute of Chartered Accountants in England and Wales (ICAEW).
3. John George Griffiths was a member of the first Council of The Institute of Chartered Accountants in England and Wales (ICAEW), and its president in the period 1897-99.
4. William Plender was president of The Institute of Chartered Accountants in England and Wales (ICAEW) in the period 1910-12. In 1911 he was knighted (Sir), so that from then on everyone called him Sir William Plender. In 1923 he was granted the dignity of baronet -which has no equivalence in Spain and does not mean baron-, using the honorary title of Sir as he had no nobility, and in 1931 he was appointed Baron Plender of Sundridge, in the county of Kent. He was again president of The Institute of Chartered Accountants in England and Wales (ICAEW) in the period 1929-1930, the last year of which was the 50th anniversary of its creation.  
An amusing and inconsequential anecdote in the life of this chartered accountant: "When had been in Canada in 1887 to investigate a case of embezzlement and he remained there and in the United States for nine months... Travelling from Montreal to New York, and being unfamiliar with American habits, he put his books out in the corridor to be cleaned. The next morning, they had disappeared and he had to walk from the railway station to a cab in his socks". (Deloitte, Plender, Griffiths & Co. 1958, p. 49)
5. Charles Waldo Haskins has been dealt with separately in previous pages.
6. Elijah Watt Sells, co-founding partner of the firm Haskins & Sells in 1895, was a certified public accountant of great prestige in the United States of America. President of the American Association of Public Accountants (AAPA) in the period 1906-8, he was distinguished with the honour of number 6 in the Accounting Hall of Fame in 1952 -it was created in 1950-, instituted by the Ohio State University.
7. George Alexander Touche was educated at The University of Edinburgh. A chartered accountant affiliated with The Society of Accountants in Edinburgh, he worked for the chartered accountants Broads, Patterson & May, in London. In 1899 he founded his own firm in the city of London, under the name of George A. Touche & Co., and in the following year 1900 he formed a partnership in the United States of America with John Ballantine Niven, to create the firm Touche, Niven & Co. He also created in 1909 the firm George A. Touche in Canada.
8. John Ballantine Niven, a Scottish chartered accountant, was affiliated with the Society of Accountants in Edinburgh in 1883. Subsequently, he moved to the United States of America and worked from August 1887 to August 1900 in the Chicago office of Price, Waterhouse & Co. In 1900 he formed a partnership with George Alexander Touche and Andrew Wilson Tait to form the public accounting firm of Touche, Niven & Co. In 1924-5 he was president of the American Institute of Accountants (AIA), successor to the American Association of Public Accountants (AAPA).
9. Nobuzo Tohmatsu was a vice admiral in the Japanese Navy. After World War II he was discharged and became a Japanese public accountant. In 1967 he became president of the Japanese Association of Certified Public Accountants. In 1968 he set up his own firm, with others, which eventually grew into a large auditing partnership. In 1975 his firm became one of the members of Touche Ross International, and after the merger of Deloitte Haskins & Sells with Touche Ross & Co. his name was added to show the Japanese contribution.

↑ Note:

- The year shown on the left side of the squares of the companies that merged with Deloitte signifies the year of incorporation of the firm or firms, by whatever name it was, while the year shown on the right side in parentheses signifies the name of the company before the merger.

The final merged firm, "Deloitte Ross Tohmatsu Limited", in 1989, was the union of two large audit firms - Deloitte, Haskins & Sells on the one hand and Touche Ross & Co on the other - which were of similar size, each with its own style and personality, which were part of the then "Big Eight". In 1993, the name was changed to Deloitte Touche Tohmatsu, Limited, which is the current name, although the firm's brand name is simply Deloitte.

In the chart above we have not detailed the family tree of Touche Ross & Co because this firm was born after the period we are analyzing. However, we provide below some minimal information about this firm so that readers are aware of its origin and development.

As with Price, Waterhouse & Co. and Deloitte, Touche Ross & Co. was the result of:

- a. The absorption or merger of many chartered accountants in Great Britain and certified public accountants in the United States of America.
- b. The merger with the Canadian company P S Ross & Sons, dating back to 1858. This is where the name Ross came from.
- c. The merger with the Japanese company Tohmatsu, Avoiki & Sanwa, created in 1968, which over the years became the largest auditing company in Japan. In 1975 it was one of the founding members of Touche Ross International.

It should be noted that in 1989, the same year as the aforementioned merger, Ernst & Whinney also merged with Arthur Young, creating the Ernst & Young (EY) group.

#### · **Price, Waterhouse & Co.**

The British Samuel Lowell Price began his professional activity as an *accountant* in 1849 in the city of London, when he was 28 years old. It was a good time, given that the British Parliament had passed the recent joint stock company laws of 1844 and 1845, which required the examination of their accounts - specifically, the balance sheet - although this examination was attributed to *auditors*, that is, to non-professionals, although, in time, it would lead to its performance being carried out by professional experts in the field, due to the lack of training of the former.

On May 1, 1865, he formed a partnership with William Hopkins Holyland and Edwin Waterhouse, and the new partnership was named Price, Holyland & Waterhouse. Edwin Waterhouse was a graduate (BA) of the University College of London, which was a rare occurrence in those days, having served his professional apprenticeship with the firm of *accountants* Coleman, Turquand, Youngs & Co.

In 1868 a new partner - Harvey Jay - joined and the firm was renamed Price, Jay, Holyland & Waterhouse, but the new partner left at the end of the year and the following year the name of the firm was changed to Price, Holyland & Waterhouse. Holyland subsequently withdrew from the partnership to act as an individual *accountant* and, in 1874, the name changed again to Price, Waterhouse & Co, a name that lasted until 1940 when the comma between the two names was eliminated.

It should be noted that the auditing of accounts in Great Britain was gradually gaining ground, so that for many years the firm's most common jobs were those related to participation in company bankruptcies, arbitration, reports for courts, bankruptcy administrations, *financial investigations* (accounting reviews to detect fraud and errors) and also as interme-

diaries between lenders and borrowers, although the latter may seem strange, but we have to think about the times.

It should also be noted that, due to the economic boom of the Victorian Era, representative of a great economic wealth of the country, many private companies owned by individual entrepreneurs became listed companies, implying that *accountants* had a great opportunity to work, since their task was to report, among others, on the recurrence of profits generated in recent years of those companies, information considered essential in the prospectuses issued by the companies for the general public to purchase their shares. This same work was repeated, years later, in the United States of America, as mentioned above.

As far as we know, the first work that the British firm Price, Waterhouse & Co. carried out in the USA was in 1873, that is, shortly after the American Civil War and during the period of reconstruction of the country. One of Edwin Waterhouse's clients, Whitwell Iron Works of Stockton, wanted to invest in an American iron company in Tennessee. Price, Waterhouse & Co. audited his accounts (Wilkins, Mira. 1989, p. 536).

During the years 1888, 1889 and 1890 when the acquisitions of brewing companies in the U.S. by British investors took place, subsequently resulting in the merger of many of them, whose shares were also listed on the London Stock Exchange, the British promoter Henry Osborne O'Hagan appointed Price, Waterhouse & Co. to carry out the corresponding investigation of his accounts. Some of these "investigations" carried out by Price, Waterhouse & Co. were as follows:

- Bartholomay Brewing Company, which included the following five firms: Bartholomay Brewing Company; Rochester Brewing Company; Genesee Brewing Company; The Malthouses of E.B. Parsons and J.N. Oothout (with a capital of British pounds sterling of 970.000).
- Milwaukee and Chicago Breweries, which included the following firms: M. Brand Brewing Company; Bartholomay and Roesing Brewing Company; K.G. Schmidt Brewing Company, Chicago, and V. Blatz of Milwaukee (with a capital of British pounds sterling of 2.271.000).
- City of Chicago Brewing and Malting Company, which included the following four firms: Conrad Seipp West Side Brewing Company; F.J. Dewes; Malthouses of George Bullen and Company, and L.C. Huck (with a capital of British pounds sterling of 1.900.000).
- St. Louis Breweries Company, which included the following eighteen firms: Anthony and Kuhn Brewing Company; Bremen Brewery Company; Brinkwirth-Nolker Brewing Company; Cherokee Brewery Company; Excelsior Brewery Company; Green Tree Brewery Company; A. Griesedieck Brewing Company; H. Grone Brewery Company; Hyde Park Brewery Company; Klausmann Brewery Company; Liberty Brewing Company; Miller Brothers Brewing Company; Schilling and Schneider; Joseph Schnaider; Charles G. Stifel's Wainwright Brewery Company; Jul. Winkelmeyer Brewing Company Assoc., todas en St. Louis; y Heims Brewery Company del Este St. Louis (with a capital of British pounds sterling of 2.850.000)<sup>14</sup> (Wilkins, Mira. 1989, pp. 326 and 537 and DeMond, C.W. 1951, p. 18).

As we have already explained, the investments made by British investors in American brewing companies were really important, and meant the beginning of the important landing of

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<sup>14</sup> The research work for the merger of this group is the most expensive of all the brewing companies. This work was carried out by different teams of *chartered accountants* sent from London.

British firms of *chartered accountants* in the U.S.A. It should be noted that the firm Price, Waterhouse & Co. was the firm of *chartered accountants* that most benefited from Henry Osborne O'Hagan's work in American brewing companies.

Due to the importance of the investments of British individuals, companies and "syndicates of investors" in the United States, which were always followed by the sending of *chartered accountants* to that country to verify the solvency and profitability of their investments - it should be remembered that in the 1850s in Scotland and in 1880 in England and Wales professional organizations of *chartered accountants* had been created in Great Britain - in the years 1888-9 the firm Price, Waterhouse & Co, noting the growth of its work in the U.S.A., considered the desirability of opening a permanent representation in that country to meet the needs of its British clients.

And so it was that the said partnership opened, for the first time, an agency in the U.S.A.

"In order to establish representation for the firm in America, the partners selected Lewis Davies Jones, who had been on the London staff since February 1877, to go overseas and carry on the practice as their agent. He was appointed manager of an agency or branch as from September 1, 1890, and opened an office at 45 Broadway in New York". (Demond, C.W. 1951, p. 13).

The conditions of that opening did not include that the name of Price, Waterhouse & Co. could be used first hand in the U.S., since the purpose was that Lewis Davies Jones could contract for such work as he saw fit in his own name, but could not contract for it in the name of Price, Waterhouse & Co. unless that firm, from London, authorized him to do so.

What was opened, therefore, was an agency, since there was no resident partner of Price, Waterhouse & Co. in the New York office. This proves beyond doubt, in our judgment, that the senior London partner, Edwin Waterhouse, was a man very jealous of the name of Price, Waterhouse & Co. -as surely were also the other London partners of that firm - and he did not want to leave the name of Price, Waterhouse & Co. in the U.S.A. in a franchise or anything like it, as he considered the good name of the firm to be sacred.

In view of the increased work in the U.S., Price, Waterhouse & Co. in London decided to send an important reinforcement for Lewis Davies Jones and did so with William James Caesar, also a *chartered accountant*, working in their London office, who arrived in New York in June 1891. Subsequently, Caesar went to Chicago to open the second U.S. office of Price, Waterhouse & Co. in the U.S., a city where they had a number of British clients (major brewing companies, Union Stockyards and G.h. Hammond Company, Ltd., among others). Although it is true that Caesar opened this office in February 1892, and this is perfectly accredited, the truth is that during the 1891 financial year, different Price, Waterhouse & Co. teams, displaced from London, were already working in that city, so their presence there was active.

The crisis caused by the "Baring affair" in Great Britain, which we have already mentioned, implied a reduction of investments in that country and, in rebound, in the USA, and this, together with the panic originated in the month of May 1893 mentioned above, led to a decrease in the rate of British investment in that country.

"Early in 1894, Price, Waterhouse's Jones reported to London that "Deloitte's are materially reducing their staff here in the United States owing to the shareholders of Business". In January 1894 Jones and Caesar wrote London "Our experience is that very little American accounting business is done or even understood outside of New York and possibly San Francisco... But overall, in 1894, after four years of operations in America, Jones and Caesar were discouraged". (Wilkins, Mira. 1989, p. 539).

In the year 1894 a major technical accounting issue arose that represented a problem in relation to the accounts of American brewing companies owned by British investors. Given



that in that year there was a great economic crisis in the USA, both British investors and American shareholders sensed and saw clearly that the dividends that would be distributed by these companies in that year would be little or nothing, and therefore something had to be done to continue to enjoy the previous policy of distributing good dividends.

According to these investors - because there are always people who have great "ideas" - the way to generate good profits was for the brewing companies to allocate a lower amount to depreciation of tangible fixed assets than in previous years, which would make it easier to declare an amount of profit that would allow certain dividends to be distributed.

When they proposed this procedure of "profit generation" of the brewing companies to the two agents of Price, Waterhouse & Co. in the United States of America - Lewis Davies Jones in New York and William James Caeser in Chicago - the latter flatly refused, given that since that firm had carried out the first works in the assigned brewing companies, the partner of Price, Waterhouse & Co. in London in charge of the business in the USA, Joseph Gurney Fowler, had instructed the two aforementioned agents on what should be the depreciation policy to be applied to the tangible fixed assets of the brewing companies, and now, due to interested and economically unjustifiable external pressures, it was intended to apply an absurd depreciation policy, which went against all accounting and economic logic.

The discussion of this proposal with William James Caeser, agent representing Price, Waterhouse & Co. of London, located in Chicago - a man of character, it must be said -, must have been quite strong, as can be seen in the following quote:

“Caesar become involved in controversies with some of the Chicago companies, particularly those for which Frederick S. Winston was serving as legal counsel, with the result that the latter wrote to Fowler and requested that there be a change in the management of the Chicago office. Winston expressed an appreciation of the ability, judgment and tact of Jones and implied that his assignment to Chicago would clear up all of the difficulties. Arrangements were therefore made for the two agents to exchange offices in April, 1894, with Jones establishing himself in Chicago and Caesar in New York.

The Chicago newspapers jumped into the fray, sympathizing with the shareholders and asserting that the whole charge was an invention of those tiresome English Accountants, got up to rob the poor ordinary shareholders of his capital dividend”. (DeMond, C.W. 1951, pp. 21 and 22).

Finally, and as always happens in these cases, the partner Joseph Gurney Fowler of Price, Waterhouse & Co. of London was the person who had to deal directly with the issue, explaining to his British clients the depreciation policy that had been applied in these brewing companies up to the present time, so that they could see that what was being done was the right thing to do, in accordance with the existing accounting technique in that country. The British clients finally accepted, possibly reluctantly, the depreciation policy that had been applied as correct, because they also saw that Price, Waterhouse & Co. would not accept a lower amount of variable depreciation than that which was being applied, without any reasonable argument whatsoever.

It should also be borne in mind, in order to focus the issue properly, that the Institute of Chartered Accountants in England and Wales (ICAEW) had been created in 1880, and the British *chartered accountants* of those days were imbued with the idea that their work constituted a "mission", so that British and American investors who sought to manipulate or misrepresent, according to their interests, the amount of the annual depreciation allowance of the American brewing companies in which they had invested, had no room for Fowler to accept such folly. Consequently, we fully agree with the following quote:

“Apparently Price, Waterhouse successfully resisted any reduction in the depreciation figures, and although the breweries continued unprofitable, they did not “die”. The dispute added to the general sense of foreboding about the firm’s future in America”. (Wilkins, Mira. 1989, p. 540).

Since this is a related topic, we find it interesting at this point to reproduce the audit certificate of the balance sheet of the St. Louis Breweries, Ltd. group of companies, issued by the London office of Price, Waterhouse & Co. detailed in the chart below (DeMond, C.W. 1951, p. 21).

**CHART 16. Audit certificate of the balance sheet of St. Louis Breweries Ltd.**

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We have examined the attached Accounts with the Books and Vouchers of the Company, and have found them to be correct. We approve them and certify that the attached Balance Sheet correctly reflects the situation of the Company.

PRICE, WATERHOUSE & CO.

London, December 3, 1895.

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As a consequence of the economic crisis in the U.S., which began in May 1893, Price, Waterhouse & Co., like Deloitte, Dever, Griffiths & Co. reduced its income and this fact caused significant concern to the London partners who, initially, thought of closing their agency in that country, but then reconsidered and decided to continue, although in a different way.

In fact, they proposed to their two agents in the USA, Lewis Davies Jones (Chicago) and William James Caeser (New York), that as of January 1, 1895, they should create a partnership between them, so that they would have their hands free to contract as many clients as they could, without any limitation whatsoever. The new partnership was called "Jones, Caeser & Co.", which would act as the agent of Price, Waterhouse & Co. in America. The British firm gave them financial guarantees that for the next three financial years they would have a minimum personal income if the income of the new company was not what they wanted.

Actually, to be frank, Edwin Waterhouse and the other partners in London were upset and also concerned about the fact that the amount of their receivable with their agency in America was not only not being reduced by not receiving any money from the other side of the Atlantic, but was increasing every year, so they understood that the two agents described had to get their act together at their own risk and that, obviously, Price, Waterhouse & Co. would continue to send them and assign them all the new work they were commissioned to do. Under the name of the new firm "Jones, Caeser & Co." they could also put "Agents of Price, Waterhouse & Co."

This new way of acting lasted a few years, until, at the beginning of the new 20th century, the situation changed, especially when the shareholders of the United States Steel Corporation, which was the largest trust (group of companies) in the USA, on February 17, 1902, appointed the firm Price, Waterhouse & Co. as their auditors for the financial year 1902. A vitally important milestone for Price, Waterhouse & Co. because of the great free publicity this represented for them and the wonderful opportunity they had on several technical fronts (especially consolidation, corporate annual report and model audit report), but this subject is beyond the scope of the period studied in this book, but we promise it will be continued in the future.

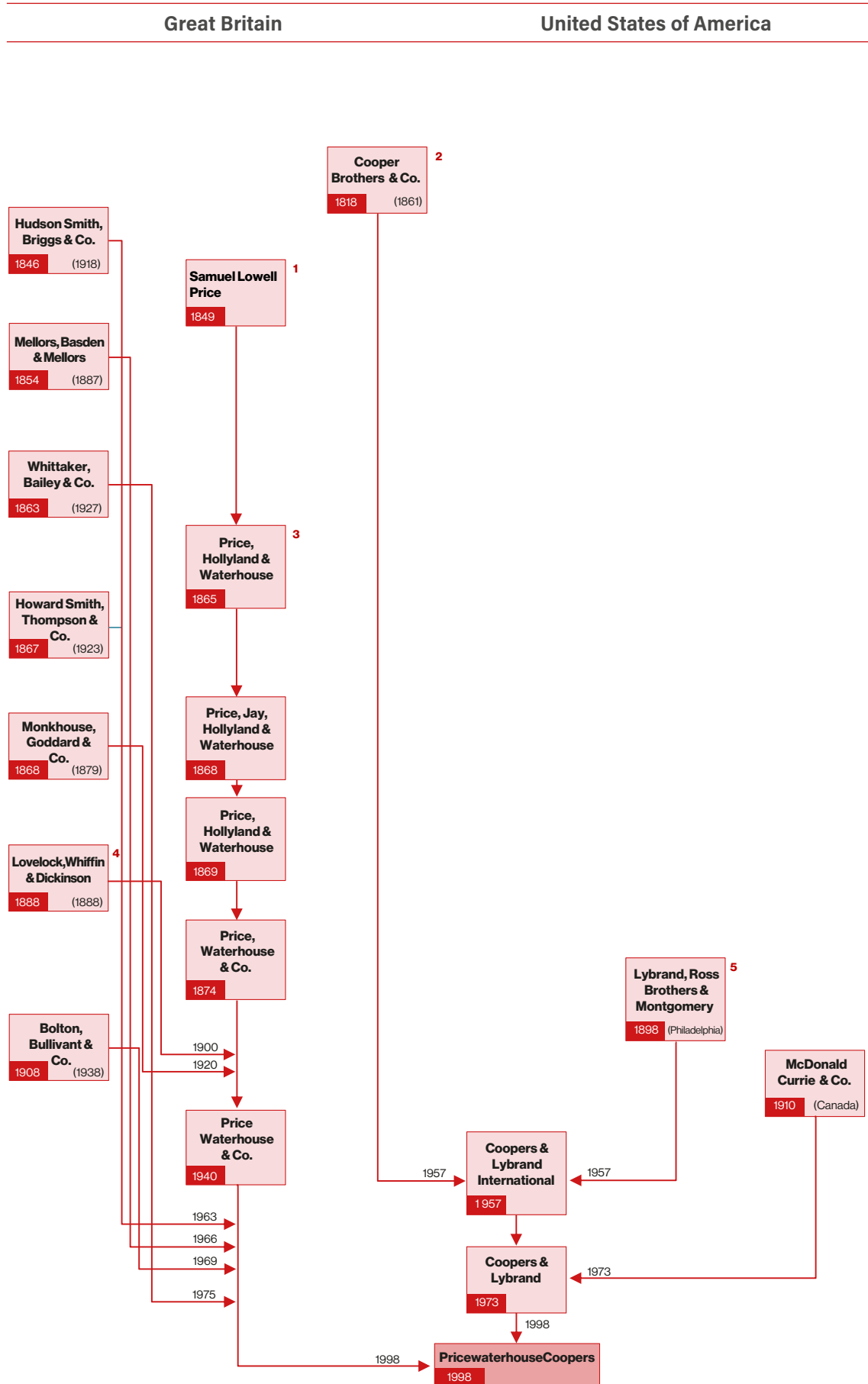
The partners or employees who worked in this American agency from its inception through December 31, 1896, according to the information we have been able to gather from various sources, were as follows:

- Lewis Davies Jones (British). *Chartered accountant*, was in New York and Chicago.
- William James Caesar (British). *Chartered accountant*, was in Chicago and New York. Later CPA No. 89 for the State of New York.
- Sandys Birket Foster (British). *Chartered accountant*.
- A.H. Pogson (British).
- M.E. Pavay (British).
- Edward James Marr (Jamaican). Later CPA No. 8 for the State of Illinois. He was later a partner of Price, Waterhouse & Co.
- Edward M. Mills.
- Robert O. Berger.
- Henry Walter Wilmot (Brazilian). He later became a partner of Price, Waterhouse & Co.

In their early days in the United States of America, the policy of Price, Waterhouse & Co. and Jones, Caesar & Co. was to hire only British personnel on their staff, to play it safe and cover their backs, especially since the training and knowledge of accounting and auditing in the U.S. in those days was poor and lagged far behind that of Great Britain. The first time they hired an American citizen was in 1897, in the person of John Hall Bowman, a graduate of Princeton University (DeMond, C.W. 1951, p. 40).

In order to provide readers with information on the evolution of Price, Waterhouse & Co. up to the present day, we summarize it below, obviously in synthetic and necessarily schematic terms, in Chart 17.

**CHART 17. Evolution of the firm Price, Waterhouse & Co.**



↑ Source:

Own elaboration by adaptation of the Price Waterhouse & Co. family tree elaborated by the English historian Peter Boys, published in *Accountancy*, October 1998, p. 10 (ICAEW. Price Waterhouse) and its update up to the present date.

- "Presidents of the ICAEW".
- "ICAEW. Coopers & Lybrand".
- "PricewaterhouseCoopers – Company Profile, Information, Business Description, History, Background Information on PricewaterhouseCoopers". Internet.
- "PricewaterhouseCoopers". Internet.
- "The History of German Public Accounting Profession". Hugh B. Markus. 1997.
- "The History of Foreign Investment in the United States to 1914". Mira Wilkins. 1989.
- "Price, Waterhouse & Co. in America. A History of a Public Accounting Firm". C.W. DeMond. 1951.
- "Accounting for Success: A History of Price Waterhouse in America, 1890-1990". David Grayson Alley and Kathleen McDermott. 1984.
- "An Early History of Coopers & Lybrand, 1898-1948". Stuart Elliott. 1984.
- "Price Waterhouse: 100 Years of Service in the United States". New York: Newcomen Society. O'Malley and F. Shaun. 1990.

↑ Observations:

1. Samuel Lowell Price was one of the founding members of the Institute of Accountants in London, created in 1870, whose name was changed in 1872 to Institute of Accountants to include accountants from the provinces. When the Institute of Chartered Accountants in England and Wales (ICAEW) was created by Royal Charter on May 11, 1880, he was one of the members of its first Council.
2. Arthur Cooper was one of the members of the first Council of the ICAEW, and President of the ICAEW during the period 1883-1884.
3. Edwin Waterhouse was president of the Institute of Chartered Accountants in England and Wales (ICAEW) in the period 1892-1894.  
A very important observation to make: It is believed that Waterhouse was responsible for the introduction, at an early date, of the system of audit schedules which is now in force in offices of the associated firms throughout the world, and also in the offices of many other accountants". (DeMond, C.W. 1951, p. 7)
4. Arthur Lowes Dickinson was appointed senior partner of Price, Waterhouse & Co. in America in 1901. He did very good work there and subsequently returned to England. After World War I the British government awarded him the honorary title of Sir.
5. Robert Hiester Montgomery, of the American firm Lybrand, Ross Brothers & Montgomery was president of the American Association of Public Accountants (AAPA) during the period 1912-1914, president of The New York State Society of Certified Public Accountants in 1922-1924, and president of the American Institute of Accountants in the difficult period 1935-1936 when the merger with the American Society of Certified Public Accountants, which had been created in 1921 due to disagreement with the policy followed by the American Institute of Accountants, was achieved. Montgomery, in addition to being a CPA, was a lawyer - a rare combination in those days in America - and also dedicated himself to providing tax advice to his clients.

↑ Notes:

- a. The year appearing on the left side of the squares of the companies that merged with Price, Waterhouse & Co. means the year of incorporation of the firm, with whatever name it was, while the year appearing on the right side in parentheses means the name of the company before the merger.
- b. The British chartered accounting firm Cooper Brothers & Co. was a large and prestigious firm in Great Britain, formed by the merger, including Coopers Brothers itself, of five chartered accounting firms.
- c. The American firm of certified public accountants Lybrand, Ross Brothers & Montgomery was also a large and prestigious firm in the United States of America.

## · **Stuart & Young**

Robert Arthur Young, known as Arthur Young, was born on December 17, 1863 in Scotland. He studied law at the University of Glasgow where he graduated as MA (*Master's Degree*) and LLB (*Law and Legal Studies Bachelor*). He was an apprentice in the Glasgow office of the lawyers AJ&A Graham.

However, he realized that his future should not be as a lawyer, because he did not feel the necessary vocation to dedicate himself to it, deciding to emigrate to the United States of America to start his professional life.

He arrived in the U.S.A. in 1890 and, after going through several experiences, in 1894 he created with his partner C.W. Stuart the partnership Stuart & Young Chicago, which was dedicated, like most of the firms of *public accountants* in those days, to review accounting

records, to carry out work to improve accounting systems, expert reports, and any other work of a very diverse nature within its wide field of activity. Since the study of this book ends on December 31, 1896, we can tell little about this new firm of *public accountants* in this short period of time, although, later on, we will make a brief outline of its evolution up to the present date.

In order to give readers an idea of the situation in the U.S.A. at that time, we consider it convenient to present the comments made by William Sutherland, a retired partner of Arthur Young & Co. in an interview with two retired partners of the same firm, Thomas G. Higgins and A.V. McPhee, on the occasion of his almost 90th birthday, at his home in Pinehurst, North Carolina. We emphasize that his opinion refers to the years 1903 and later, because it was in that year that he joined the firm, but his comments are very interesting and reinforce the difficulties of the early days of the auditing profession in that country.

“When we go back to the year 1903, we are going back, a long way in the accounting profession. I can dramatize this by pointing out that I arrived in Chicago a couple of months before the first Illinois CPA law was enacted and about eight months before the Illinois Society of Certified Public Accountants was organized.

So, the first thing you must understand is that there was literally no accounting profession in existence in 1903, no established body of accounting theory that one could turn to and of course no “authorities”. Whatever textbooks were then in existence dealt for the most part with double-entry bookkeeping, with very little being said about the theory and logic of accounting.

In the early days of the century there was no clear understanding of the role of the public accountant, and of course he had no status. Most people, I think, viewed him as a skilled bookkeeper who was an expert in figures and who might be called in the event of irregularities or if the books were out of balance.

Companies in those days were very secretive, and most corporate officials had a strong conviction that accountants should be refused unlimited access to the books and records. It was a battle sometimes to see a contract or examine board minutes, although this battle was nothing compared with the inevitable battle that ensued when the accountant insisted on making disclosures in financial statements. I had some frightful experiences. Three or four times I was threatened with dismissal from jobs, and on two occasions I had to appeal to the Board of Directors. I was even threatened with physical violence on more than one occasion.

In those early days there was not much uniformity in accounting standards<sup>15</sup> and procedures. Different companies handled similar transactions in different ways. Property exhaustion is a good example of this. Some companies provided for depreciation, others did not where there was a depreciation provision it was seldom calculated in any kind of systematic manner. Usually, the amount provided was arbitrary and varied considerably from year to year, depending more or less on the whims of management. Likewise with capital expenditures –there was little uniformity between companies as to items capitalized and items charged to expense.

By today’s standards the information contained in financial statements around the turn of the century was meager indeed. Of course, there was not the present-day need for financial information. There were few outside investors, and many companies were still controlled by the original owner-manager group. Yet despite these inadequacies it is interesting to recall the quality of financial reporting improved from year to year, and of course this improvement is still going on.

*Did our firm do much auditing work in its early days?*

No, initially the firm’s principal business was acting as agents for some British investment companies and placing money in real estate loans for some of the Scottish life insurance companies. Some of the investments were highly speculative. In those days there was not emphasis on safety that there is today.

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15 It should be noted that at that time there were no auditing standards. William Sutherland, due to his advanced age when he had this interview, probably mixed up this term with the standards that appeared from 1939 onwards.

It was Stuart<sup>16</sup> who had the aspiration to practice public accounting. He seemed to sense the growing need for accounting services in a country which was rapidly becoming industrialized. But while Stuart had the idea, not much auditing work developed until Arthur Young himself took charge. When I got to Chicago in 1903 the firm was pretty well on its way to developing an accounting practice, and as I recall it there was a staff of perhaps twenty people. I might say that I was more than surprised when I got to the Monadnock Building to find the firm listed in the notice board on the ground floor as "General Agents".

*Could you tell us something about the competence of the audit staff in those early days?*

It was not too good. You must remember that it wasn't until after the Second World War that the colleges and universities in America began to teach accounting and auditing seriously. Until the early 1920s our principal source of trained accountants was Great Britain. We obtained some competent men from that source, but the supply was limited and we had to fill in with men who had little experience other than some bookkeeping. I might also say that a lot of our early practice involved investigations and work in connection with mergers and consolidations. This kind of work was entirely outside the experience of the Britishers prior to their coming to the United States. In my own case, I came up against hundreds of problems for which there were no precedents whatever. We were pioneers, and I had the feeling on a number of occasions of being thrown into a lake and having to learn to swim or else". (Sutherland, William. 1969, p. 32).

From the above long quote, we conclude the following as the most important aspects:

1. That the profession of CPA in the United States of America took many years to develop, having to go through many difficulties until it managed to reach the appropriate cruising speed, a fact that did not occur -in our opinion- until the end of the 1930s, especially due to the consequences derived from the McKesson & Robbins Incorporated "case", a subject that we will comment on extensively in a future book. We must point out that this fact is strange to many current auditors, and we say this because of our own experience, because they think that "quality" audits existed in the USA long before the date mentioned above, when this was not the case.
2. Sutherland is very clear when he states that in the early years of the twentieth century there was no clear understanding of the role of the statutory auditor, so obviously the same situation existed until 1896, which is the period in which we completed our examination of the determining facts, factors and developments that affected the auditing of accounts in the USA.
3. Sutherland confirms a fact that we have previously stated, which was the lack of accounting books that dealt with its theory and logic, given that most of the existing books on the market dealt with bookkeeping, that is, pure accounting entries to reflect the transactions carried out, without considering the problems of their valuation, impairment, accrual, classification and the need for information, among others, to have a knowledge of what was happening in the audited companies.

All this proves the unreliability of the information that could be obtained from the accounting data, because each company treated its operations "to the best of its knowledge and belief", or of the spurious interest of the top managers on some occasions, facts that, to be blatantly accurate, occurred until the crash of 1929. Let us simply recall, by way of example, the discussion that took place in the audits of the brewing companies in 1894 carried out by the firm Price, Waterhouse & Co. in relation to the depreciation of tangible fixed assets, mentioned above, and the lies and absurdities that the newspapers of the American sensationalist press commented on this subject, to add fire to the subject, without understanding the problem they were dealing with.

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16 At that time the auditing firm was called Stuart & Young.

4. Sutherland is very frank when he states that in those days Stuart and Young did not do much auditing work, devoting itself to other tasks, thus showing that the auditing profession took many years to develop, for many reasons.
5. It is also very true the statement he makes in the sense that, until after the Second World War, the faculties and university schools did not take very seriously the training of their students in the accounting and auditing disciplines, which, evidently, significantly delayed the quality of their training and knowledge in these subjects.

It is a real pity that it took so long to achieve the illusion that the first pioneers of the profession of *public accountants* in the U.S. had that future members entering the profession had to have a high level of training and knowledge in the disciplines of the profession. However, it must also be said that, nowadays, this issue has been more than corrected, since in order to sit for the *certified public accountant* exam, it is required to have a university degree and a master's degree, in addition to the fact that there are many American universities that offer high-level specialized studies, especially in accounting, which is very positive and useful.

Arthur Young collaborated very actively in 1903 to make the approval of a law regulating the profession of *certified public accountant* in the State of Illinois a reality, which is why he was later appointed president of the Illinois Society of Certified Public Accountants.

In 1906, he bought out his partner C.W. Stuart his share of the partnership and, together with his brother Stanley Young, they formed a partnership called Arthur Young & Co.

In view of the fact that the world was evolving very rapidly, in 1923 Arthur Young & Co. reached an agreement with the British *chartered accountants* Broads Patterson & Co. to create an international company called Arthur Young, Broads Patterson & Co. Subsequently, in 1966, these two companies decided to merge and in 1968, 1970, 1979 and 1981 another four British *chartered accountants* merged with Arthur Young & Co., keeping the same name at the end of these mergers (1985).

In 1979 the American *certified public accountants* Ernst & Ernst, founded in 1903 in Cleveland, and the three British *chartered accountants* Whinney, Murray & Co., Turquand, Barton, Mayhew & Co. and Baker, Sutton & Co. merged to create Ernst & Whinney.

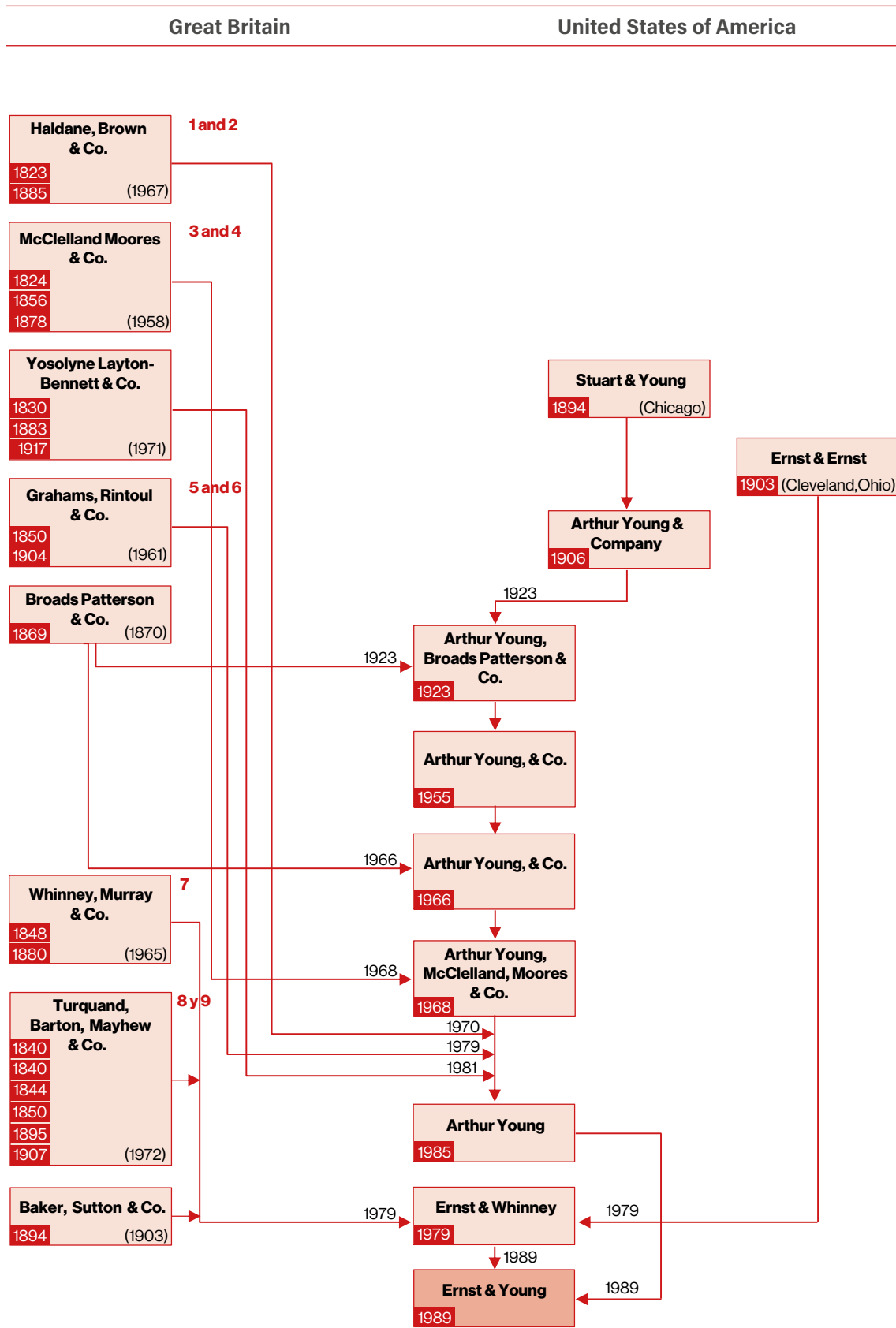
In 1989, Arthur Young & Co. and Ernst & Whinney merged to create Ernst & Young, whose global name is Ernst & Young Global Limited, and whose brand name has been simply EY since July 1, 2013. The merger of these two large companies was, according to their statements, to create a more competitive company.

In October 1997, Ernst & Young publicly announced that it was in talks with KPMG to merge. Had the merger gone through, the new group would have been the largest professional services group in the world. However, these talks ended in February 1998 without an agreement, as a number of factors prevented the merger from going ahead, not the least of which was the realization that this was a merger of different companies, with technical and business cultures that were difficult to combine.

In order to provide readers with information on the evolution of the Arthur Young & Co. company up to the present day, we summarize it below, obviously in synthetic and necessarily schematic terms, in Chart 18.



**CHART 18. Evolution of the firm Arthur Young & Co.**



- The global name is: **Ernst & Young Global Limited**
- From 1-07-2013 its acronym is **EY**

↑ Source:

Own elaboration by adaptation of the family tree of Arthur Young & Co. elaborated by the English historian Peter Boys, published in *Accountancy*, January 1989, p. 102 (ICAEW. Arthur Young) and of the family tree of Ernst & Whinney, also elaborated by the same English historian, published in *Accountancy*, May 1989, p. 88 (ICAEW Ernst & Whinney) and its update up to the present date.

- "Presidents of ICAEW." ICAEW.
- "ICAEW. Arthur Young".
- "ICAEW. Ernst & Whinney".
- "Ernst & Young". Wikipedia.
- "Arthur Young (accountant)". Wikipedia.
- "Arhur Young and the business he founded: Personal Reminiscences". 2010.
- "Accountancy and the British Economy, 1840-1980: The evolution of Ernst & Whinney". Edgar Jones. 1981.

↑ Observations:

Some of the leaders of the chartered accountants' societies that merged with Ernst & Young are famous names in the auditing profession in Great Britain, which, because of their importance, we highlight below:

1. James Haldane was president of The Society of Accountants in Edinburgh from the period 1895-1898.
2. Richard Brown, author of the famous book "History of Accounting and Accountants", published by Frank Cass & Co. Ltd. in 1905, was president of The Society of Accountants in Edinburgh in the period 1916-1918.
3. James McClelland was president of The Institute of Accountants and Actuaries in Glasgow in the period 1853-1864, i.e., its first president.
4. Alexander Moore was president of The Institute of Accountants and Actuaries in Glasgow in the period 1884-1887.
5. John Graham was president of The Institute of Accountants and Actuaries in Glasgow in the period 1881-1884.
6. Peter Rintoul was president of The Institute of Accountants and Actuaries in Glasgow for the period 1928-1930.
7. Frederick Whinney was president of The Institute of Chartered Accountants in England and Wales (ICAEW) during the period 1884-1888.
8. William Turquand was the first president of The Institute of Chartered Accountants in England and Wales (ICAEW) in the period 1880-1882.
9. Harold Montague Barton was president of The Institute of Chartered Accountants in England and Wales (ICAEW) in the period 1944-1945.

↑ Note:

The year appearing on the left side of the squares of the companies that merged with Arthur Young and Ernst & Ernst means the year of incorporation of the firm, with whatever name it was, while the year appearing on the right side in parentheses means the name of the company before the merger.

· **Haskins & Sells**

When Charles Waldo Haskins and Elijah Watt Sells<sup>17</sup> completed the work of the Dockery Commission on March 4, 1895, they formed Haskins & Sells because of the excellent relationship that had developed between them over the nearly two years of the work.

Since Haskins had been acting as a *public accountant* since 1886, in fact, the formation of the new partnership was a continuation of his professional practice, which is why some of the firm's early work came from existing clients. The first client of the new firm was Vassar College, which commissioned them to examine the accounting methods they used, probably because they were familiar with the work they had done on the Dockery Commission, which simplified the administrative and accounting methods of the U.S. government, creating efficiency and saving them money, so this new client probably thought they could repeat the same thing at their *college*.

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<sup>17</sup> Elijah Watt Sells was president of the American Association of Public Accountants (AAPA) in the years 1906-1907 and was honored to be inducted into the Accounting Hall of Fame with the number 6 in 1952. He was the senior partner of Haskins & Sells beginning in 1903 when his partner Haskins died suddenly.

Subsequently, due to Haskins' excellent social relations in New York City, they received a lot of engagements from different institutions and companies, so from the very first moment they had no shortage of work.

The firm increased in size over the years due to the great economic growth of the United States of America and its potential for wealth in many fields and, like the other auditing firms that for many years were known as the "Big Eight", its great growth was also due to the large number of mergers carried out with other companies in many cities of that country.

As we have done with the previous audit firms analyzed, and although the purpose of this book is to conclude with events up to December 31, 1896, we will only refer briefly to certain events after that date so that readers will be aware of their evolution up to the present date.

With a great vision of future -Charles Waldo Haskins had it-, in the year 1901 they opened a small office in London, in order to be able to serve the North American companies that had investments in Great Britain and in the European continent, being the first North American auditing company that opened an office in Europe. This made it possible for them to become acquainted with the auditing market in Great Britain and to establish friendly relations with some of the firms established there.

Indeed, this relationship was established with the British auditing firm Deloitte, Plender, Griffiths & Co. (Deloitte), with which there was always a good feeling. Arthur H. Carter (known as Colonel Carter), son-in-law of Elijah Watt Sells and partner of Haskins & Sells since 1922, on his visits to London

"developed Mr. Sells acquaintance with Sir William Plender and the other senior partners in Deloitte, Plender, Griffiths & Co., Percival D. Griffiths, Lionel Maltbie, and Arthur E. Cutforth. He and Charles E. Morris talked with them as to closer relations in North America and as a result an agreement was entered into October 1, 1924 for the formation of Deloitte, Plender, Haskins & Sells to conduct under its name the practices of Deloitte and Haskins & Sells in Canada, Cuba, and Mexico, with offices in Montreal, Havana, and Mexico City. This was followed in the late 1920s and early 1930s by the formation of Deloitte, Plender, Haskins & Sells firms in Argentina, Uruguay, Brazil, Chile, Bolivia, Peru, and the Union of South Africa. All of these D.P.H&S. offices proved to be technically competent and administratively efficient. It has been necessary to close only one office, namely Havana, closed in the early 1960s because of the policies of the Castro regime in Cuba". (Haskins & Sells. 1970, p. 128).

In subsequent visits of Arthur H. Carter and Charles E. Morris to London in the 1930s, the possibility of extending the relationship between Deloitte, Plender, Griffiths & Co and Haskins & Sells was discussed, but at that time it did not come to fruition, and it was decided to continue with the existing situation.

However, years later, after the Second World War and with a very different situation - let us remember that, as a consequence of the crash of 1929, there was a very deep depression in the United States of America -

"in 1951 and 1952, negotiations were carried out by Mr. Foye and Mr. Powell with Sir Russell Kettle and Sir Alan Rae Smith, which resulted in the merger of the professional practice in the United States of Deloitte with Haskins & Sells, and the merger of Haskins & Sells in London with Deloitte. Sir Russell Kettle and Sir Alan Rae Smith became signatories to the Haskins & Sells general partner agreement" (Haskins & Sells. 1970, p. 101).

It is evident that the opening of an office of Haskins & Sells in the year 1901 in London generated over the years a good relationship with Deloitte, which ended in the year 1952 with the merger of both firms, as can be seen in the genealogical tree of the evolution of Deloitte (Chart 15), where it is noted that Deloitte was created in 1845, that is, exactly 50 years before Haskins & Sells, which was founded in 1895.

Finally, we would like to highlight an event, in our opinion of "vital importance", which had a definitive effect on the audit profession in the USA, and which had as its author Arthur H. Carter (Colonel Carter), senior partner of Haskins & Sells in 1933. Readers will forgive us because this fact falls outside the scope of the period analyzed in this book, but regardless of the fact that it will be explained in detail in a future book, since that is where it is "due" to be done, we consider it convenient to announce it.

As a consequence of the October 1929 crash in the United States of America, the US government had to take a series of measures to try to prevent a similar situation from repeating itself in the future, and among them was the regulatory control of all the companies that listed their shares on the stock exchanges and those that issued securities to be purchased by investors.

The US Senate Committee on Banking and Currency was analyzing the proposed bill to create the Securities and Exchange Commission and needed to know the opinion of an expert on a subject they did not master. Senator Fletcher of the aforementioned committee invited Arthur H. Carter, who at that time was also president of the New York State Society of Certified Public Accountants (NYSSCPA), to clarify the doubts they had due to his lack of knowledge on the subject. Carter thoroughly prepared for the possible questions he might be asked and, with his authority, preparation and knowledge, answered them masterfully. In one of his answers, he stated that the financial statements of companies wishing to list their shares on the stock exchanges should be examined by an independent auditor, who should express an opinion on them, which would protect the interests of investors and give them confidence as to their reasonableness and correctness.

The whole text of the questions and answers of his presentation before the aforementioned committee is not wasted, but the important thing is that the aforementioned committee followed his advice to the letter and the law of the SEC (*Securities and Exchange Commission*) so established, probably preventing that the verification of the financial statements of the companies that listed their shares on the stock exchange could have been assigned exclusively to public officials, with the serious consequences that would have resulted from this.

Finally, it should be recalled that the firm of *certified public accountants* Haskins & Sells merged with Deloitte, as can be seen in Chart 15.

# Annex I

## MAIN MEMBERS OF THE COUNCIL OF THE AMERICAN ASSOCIATION OF PUBLIC ACCOUNTANTS (AAPA), FROM ITS BIRTH UNTIL DECEMBER 31, 1896

Date	Name	Position
17-01-1887	Robert L. Fabian (British)	President
	John Heins (American)	Vicepresident
	James T. Anyon (British)	Secretary
	William Henry Veysey (British)	Treasurer
16-02-1888	James Yalden (British)	President
	John Heins (American)	Vicepresident
	James T. Anyon (British)	Secretary
	William Henry Veysey (British)	Treasurer
19-11-1889	John Heins (American)	President
	Edward H. Sewell (British)	Vicepresident
	William Henry Veysey (British)	Secretary-Treasurer
18-12-1890	John Heins (American)	President
	Edward H. Sewell (British)	Vicepresident
	Mark C. Mirick (American)	Secretary-Treasurer
06-02-1892	James Yalden (British)	President
	Henry R. M. Cook (British)	Vicepresident
	Thomas G. Williams (British)	Secretary
	Thomas Bagot (British)	Secretary
	Richard M. Chapman (American)	Treasurer
17-01-1893	Henry R. M. Cook (British)	President
	Richard F. Stevens (American)	Vicepresident
	Thomas Bagot (British)	Secretary
	Richard M. Chapman (American)	Treasurer
27-01-1894	Richard F. Stevens (American)	President
	Frank Broaker (American)	Vicepresident
	Thomas Bagot (British)	Secretary
	Richard M. Chapman (American)	Treasurer
12-01-1895	Richard F. Stevens (American)	President
	Frank Broaker (American)	Vicepresident
	Thomas Cullen Roberts (British)	Secretary
	Francis Gottsberger (American)	Treasurer

**MAIN MEMBERS OF THE COUNCIL OF THE AMERICAN ASSOCIATION OF PUBLIC ACCOUNTANTS (AAPA), FROM ITS BIRTH UNTIL DECEMBER 31, 1896**

<b>Date</b>	<b>Name</b>	<b>Position</b>
14-01-1896	Richard F. Stevens (American)	President
	Frank Broaker (American)	Vicepresident
	Thomas Cullen Roberts (British)	Secretary
	Francis Gottsberger (American)	Treasurer

↑ Source:

- "The Rise of the Accounting Profession. From Technician to Professional, 1896-1936". John L. Carey. 1969.
- "The American Association of Public Accountants: Its First Twenty Years, 1886-1906". Norman E. Webster. 1954.

# Annex II

## ROYAL CHARTER OF THE 11<sup>th</sup> MAY 1880

*Victoria by the Grace of God*

**of the United Kingdom of Great Britain and Ireland Queen Defender of the Faith**

TO ALL TO WHOM THESE PRESENTS SHALL COME GREETING!

**Whereas** an Humble Petition has been presented to Us by the following Public Accountants: namely William Turquand of Coleman Street in the City of London; John Unwin Wing of Prideaux Chambers, Sheffield; Anthony Wigham Chalmers of 5 Fenwick Street, Liverpool; Henry Grosvenor Nicholson of 100 King Street, Manchester; Jarvis William Barber of Alliance Chambers George Street, Sheffield, and Charles Henry Wade and Edwin Guthrie both of Marsden Street, Manchester, setting forth (among other things) to the effect following:

That the Petitioner William Turquand is the President of a Society established in 1870 in London called the Institute of Accountants, that the Petitioner John Unwin Wing is the President of a Society established in 1872 in London called the Society of Accountants in England; that the Petitioner Anthony Wigham Chalmers is the President of a Society of Accountants established in 1870 at Liverpool; that the Petitioner Henry Grosvenor Nicholson is the President of a Society of Accountants established in 1871 at Manchester; that the Petitioner Jarvis William Barber is the President of a Society of Accountants established in 1877 at Sheffield, and that the Petitioners Charles Henry Wade and Edwin Guthrie are Public Accountants at Manchester.

That the Profession of Public Accountants in England and Wales is a numerous one and their functions are of great and increasing importance of their employment in the capacities of Liquidators acting in the winding-up of companies and of Receivers under decrees and of Trustees in bankruptcies or arrangements with creditors and in various positions of trust under Courts of Justice as also in the auditing of the accounts of public companies and of partnerships and otherwise.

That the aggregate number of members of the said societies exceeds 500 and in that number are comprised nearly all the leading Public Accountants of England and Wales.

That the said societies were not established for the purposes of gain nor do the members thereof derive or seek any pecuniary profit from their membership, but the societies aim at the elevation of the profession of public accountants as a whole and the promotion of their efficiency and usefulness, by compelling the observance of strict rules of conduct as a condition of membership and by setting up a high standard of professional and general education and knowledge and otherwise.

That in the judgement of the Petitioners it would greatly promote the objects for which the said societies have been instituted and would also be for the public benefit if the members thereof were incorporated as one body as besides other advantages such incorporation would be a public recognition of the importance of the profession and would tend to gradually raise its character and thus to secure for the community the existence of a class of

persons well qualified to be employed in the responsible and difficult duties often devolving on Public Accountants.

That the Petitioners desire and propose that if incorporation by Charter is granted to them such conditions should be laid down as would require for the admission to membership of persons now already following the profession either long actual experience in the profession or service for a long time in the capacity of a Public Accountant's Clerk or else the passing of appropriate examinations under the supervision of the Corporation.

That with respect to the admission to membership of persons hereafter desirous of entering into the profession the Petitioners contemplate that subject to future determination by the Council or Governing Body of the Corporation a strict system of examination should be established including a preliminary examination to be held before the candidate for membership enters on service under articles, an intermediate examination to be held in the course of his service and a final examination and that no person be allowed to present himself for the final examination unless he has served for five years at least or if he has graduated in any of the Universities of the United Kingdom then for three years at least under articles as a Public Accountant's Clerk.

That the examinations would (subject to future determination by the Governing Body of the Corporation) be of such a character as to test the knowledge of the candidates not only in bookkeeping and accounts but also in the principles of mercantile law and in the law and practice of bankruptcy and the winding-up of companies.

That the Petitioners believe that such a system would have an educational effect of a highly beneficial kind.

That the Petitioners further desire and propose that the Corporation should lay down such rules respecting admission to membership and exclusion therefrom as would prevent Public Accountants from mixing the pursuit of any other business with the discharge of the higher duties devolving on them as Public accountants, and as would put an end to the practice which has been much objected to of the division of profits with persons in other professions or callings in the form of commission or the like.

That the Petitioners desire that the members of the Corporation should be authorized to annex to their names distinctive letters indicative of their membership.

**And whereas** by the said Petition, the Petitioners on behalf of themselves and the other members of the said societies and of the profession generally most humbly prayed that We would be graciously pleased to grant our Royal Charter for incorporating under the title of the incorporated Institute of Accountants in England and Wales, or under other title as to Us might seem fit and with all such powers and privileges as are mentioned in the Petition or such others as to Us might seem fit the Petitioners and the several persons who were then members of the said societies, or of any of them and other Public accountants who might thereafter become members of the Corporation in pursuance of the regulations thereof.

**Now therefore we** having taken the said Petition into Our Royal consideration and being satisfied that the intentions of the Petitioners are laudable and deserving of encouragement have constituted erected and incorporated and We by Our Prerogative Royal and of Our especial Grace certain knowledge and mere motion by these Presents for Us and Our Royal Successors do constitute erect and incorporate into one body politic and corporate by the name of THE INSTITUTE OF CHARTERED ACCOUNTANTS IN ENGLAND AND WALES, the said William Turquand, John Unwin Wing, Anthony Wigham Chalmers, Henry Grosvenor



Nicholson, Jarvis William Barber, Charles Henry Wade and Edwin Guthrie and such other persons as are by this Our Charter made or declared to be members or as shall thereafter be admitted as members of the said body corporate with perpetual succession and of a Common Seal and with the power to alter and renew the same at discretion, Willing and ordaining that the said body corporate (hereinafter referred to as the Institute) shall be capable in law to take and hold any personal property and also to take purchase and hold lands, buildings and hereditaments for the purposes of the Institute with power to dispose thereof but so that the Institute shall apply its profits (if any) or other income in promoting its objects and shall not any time pay any dividend to its Members.

**In Witness** whereof We have caused these Our Letters to be made Patent.

**Witness** Ourself at our Palace of Westminster, the Eleventh day of May in the Forthy third Year of Our Reign.

By Her Majesty's Command.

CARDEW.

↑ Source: "Institute of Chartered Accountants in England and Wales".



## Annex III

### **Act to regulate the profession of Public Accountant in the State of New York**

Chapter 312. Laws of 1896  
 Passed Assembly 3 April 1896; Passed Senate  
 7 April 1896.  
 Signed by Governor 17 April 1896  
 State of New York

An Act to Regulate the Profession of Public Accountants.

The people of the State of New York, represented in the Senate and Assembly, do enact as follows:

Section 1. Any citizen of the United States, or person who has duly declared his intention of becoming such citizen, residing or having a place for the regular transaction of business in the State of New York, being over the age of twenty-one years and of good moral character and who shall have received from the Regents of the University a certificate of his qualifications to practice as a public expert accountant as hereinafter provided, shall be styled and known as a Certified Public Accountant; and no other person shall assume such title, or use the abbreviation C.P.A. or any other word, letters or figures, to indicate that the person using the same is such Certified Public Accountant.

Section 2. The Regents of the University shall make rules for the examination of persons applying for certificates under this act, and may appoint a board of three examiners for the purpose, which board shall, after the year eighteen hundred and ninety-seven, be composed of Certified Public Accountants. The Regents shall charge for examination and certificate such a fee as may be necessary to meet the actual expenses of such examinations, and they shall report annually their receipts and expenses under the provision of this Act to the State Comptroller and pay the balance or receipts over expenses to the State Treasurer. The Regents may revoke any such certificate for sufficient cause after written notice to the holder thereof and a hearing thereon.

Section 3. The Regents may, in their discretion, waive the examination of any person possessing the qualifications mentioned in Section 1 who shall have been for more than one year before the passage of this Act, practicing in this State on his own account, as a public accountant, and who shall apply in writing for such certificate within one year after the passage of this Act.

Section 4. Any violation of this Act shall be a misdemeanor.

Section 5. This act shall take effect immediately.

↑ Source:  
 "Public Accounting in the United States, 1896-1913". James Don Edwards. Assistant Professor, Michigan State College.  
 The Accounting Review. April, 1955, p. 240.



# Annex IV

## First CPA examination given in the United States

The following is a list of questions given to Certified Public Accountant Candidates by the University of the State of New York under these regulations:

The examination for public accountants required by the Act of Congress recently passed was held on the 15th and 16th of December, 1896. There were four papers to be answered by the candidates for the certificate C.P.A. (Certified Public Accountant). As the Accountancy subjects will be of interest to our readers, we reprint them:

University of the State of New York. Examination Department.

### 1st ACCOUNTANT EXAMINATION

#### Theory of Accounts

Tuesday, December 15th, 1896—9:15 A.M. to 12:15 P.M. Only.

“The Regents of the University shall make rules for the examination of persons applying for certificates under this act, and may appoint a board of three examiners for the purpose. ...”  
Laws of 1896, Ch. 312, s.2.

One Hundred credits; necessary to pass, seventy-five. Answer questions 1, 2, 4, 8, 13, and five of the others, but no more. If more than five of these other questions are answered, only the first five of these answers will be considered. Each complete answer will receive ten credits. Do not repeat questions, but write answers only, designating by number, as in question paper.

Check the number (y) of each one of the questions you have answered. Use one side of sheet only.

1. State the essential principles of double entry bookkeeping, and show wherein it differs from single entry bookkeeping.
2. Describe the following, and show wherein they differ: (a) Trial Balance, (b) Balance Sheet, (c) Statement of Affairs, (d) Realization and Liquidation Account.
3. In devising a system of accounts for a business, what are the main subjects for consideration, and in what order should they have attention?
4. Describe the following, and show wherein they differ: (a) Revenue Account, (b) Trading Account, (c) Profit and Loss Account, (d) Deficiency Account.
5. State the purpose for which series of perpendicular columns are employed in books of original entry, and how these purposes may be accomplished relative to the following conditions: (a) several Ledgers comprehended in one system of accounts, (b) several departments comprehended in one business, (c) several accounts comprehended in income and expenditure.

6. Describe the following and show wherein they differ: (a) statement of income and expenditure, (b) statement of receipts and payments.
7. Describe a method of keeping accounts so that the aggregate sums due from customers and due to creditors can be known without preparing a schedule of the accounts of such customers and creditors, and so that an independent balance of the Ledger, containing only the real, nominal, special and controlling accounts, exclusive of the individual accounts of customers and of trade creditors, may be taken.
8. Define and differentiate: (a) capital and revenue, (b) capital receipts and revenue receipts, (c) capital expenditure and revenue expenditure.
9. How may the accounts in a Trial Balance be best arranged to facilitate the preparation of a business and financial statement?
10. Define and differentiate: (a) fixed assets and cash assets, (b) fixed liability and floating indebtedness, (c) fixed charges and operating expense.
11. Describe the following kinds of accounts: (a) personal, (b) impersonal, (c) real, (d) nominal, (e) current, (f) summary.
12. Describe the process and state some of the purposes of analysing a Ledger.
13. Describe the nature of the following accounts: (a) sinking fund, (b) reserve fund, (c) redemption fund, (d) depreciation fund, (e) contingent fund, (f) investment fund.
14. Define the following: (a) stock, (b) capital, (c) surplus, (d) deficiency, (e) capital stock, (f) preferred stock, (g) common stock, (h) share capital, (i) loan capital.
15. Describe the nature of the following accounts: (a) merchandise, (b) construction, (c) consignment, (d) joint, (e) subscription, (f) expense, (g) maintenance, (h) venture, (i) suspense, (j) dividend.

### Practical Accounting

Tuesday, December 15th, 1896—1:15 to 4:15 P.M. Only.

One hundred credits; necessary to pass, seventy-five.

Answer questions one and two and two of the others, but no more. If more than two of these other questions are answered, only the first two of these answers will be considered. Each complete answer will receive twenty-five credits. Do not repeat questions but write answers only. Check the number (y) of each one of the questions you have answered. Use one side of sheet only.

1. Jones and Robinson, merchants, are unable to meet their obligations. From their books and the testimony of the insolvent debtors the following statement of their condition is ascertained:

Cash on hand	\$5.500	Sundry losses	\$13.500
Debtors: \$1,000 good; \$600 doubtful; but estimated to produce \$200; \$1,000 bad	\$2.600	Trade Expenses	\$7.400
		Creditors, unsecured.	\$25.000

Property, estimated to produce \$9,000	\$14,000	Creditors, partially secured	\$23,900
Bills receivable, good	\$4,250	Creditors, fully secured	\$17,000
Other securities: \$3,000 pledged with partially secured creditors; remainder held by the fully secured creditors	\$28,000	Preferential claims: wages, salaries and taxes	\$700
Jones, drawings	\$9,000	Jones, Capital	\$10,000
Robinson, drawings	\$8,400	Robinson, Capital	\$16,050

Prepare a statement of affairs, showing the liabilities and the assets, with respect to their realization and liquidation; also, a Deficiency Account, showing such of the above stated particulars as would account for the deficiency shown by the statement of affairs.

2. A., B. and C. enter into partnership, January 1st, 1895. A. contributes \$8,500, B. \$5,500 and C. \$4,500. The profits and losses are to be divided in the same proportion. December 31st, 1895, the partners agree that, before dividing profits and losses, there shall be charged, as an expense of the business, and placed to their individual credits, salaries as follows: A., \$800, B., \$700, C., \$600.

December 31st, 1895, the Trial Balance of their books showed the following:

Capital, A.	\$8,500	Loan interest	\$125
Capital, B.	\$5,500	Salaries	\$1,257
Capital, C.	\$4,500	Wages	\$2,025
Cash on hand and in bank	\$1,900,48	Trading expenses	\$1,052,65
Stock, January 1, 1895	\$11,550	Interest and discount	\$1,273,45
Purchases	\$51,666,70	Losses on exchange	\$2,108
Sales	\$25,650,80	Commissions	\$3,510,20
Plant and fixtures	\$2,068,92	Drawings, A. (includes 800 salary allowance)	\$2,750,25
Book accounts receivable, including consignments	\$20,745,83	Drawings, B. (includes 700 salary allowance)	\$2,345,65
Consignments	\$33,822,70	Drawings, C. (includes 600 salary allowance)	\$1,970,43
Trade creditors	\$14,855,66		
Loan Account	\$6,250		

Their inventory of stock on hand, December 31st, 1895, amounted to \$11,337,50. Unexpired insurance premiums, \$91. December 31st, 1895, \$300 was paid for January (1896) rent in advance.

Prepare a Trading Account (cost as against proceeds), a Profit and Loss account, and a Balance Sheet; also partners' capital Accounts as of December 31st, 1895, allowing 6 per cent interest on capital and reserving 2½ per cent for losses on consignments.

3. A. buys a gas business at receiver's sale, taking over the entire plant, subject to a bonded indebtedness of \$9,500. A. sells the same to the B. gas company incorporated under the laws of the State of New York, for the purpose of acquiring this property from him, and having an authorized capital of \$30,000, divided into 300 shares of \$100 each. C., D., and E. subscribe each for one share of the capital stock of the company, and the company purchases the property from A. for 297 shares and assumes the bonded indebtedness stated.

On making and appraising an inventory of the property for the purpose of distribution to proper accounts, the following conservative values, exclusive of good-will, franchise rights, etc., are ascertained:

Land	\$2,000
Buildings	\$6,000
Coal-gas plant, machinery and fittings	\$3,800
Water-gas plant, machinery and fittings	\$6,000
Mains	\$27,000
Meters	\$1,200
Supplies	\$1,500
Office furniture and fixtures	\$300
Sundry and other items	\$1,200
	\$49,000

Frame the necessary entries to open the company's books and show the capital stock and the fixed assets on the face of the ledger. Prepare a balance sheet.

4. Three partners invest capital as follows: A. \$100,000, B. \$60,000, C. \$40,000. On this basis of capital investment, which is to remain intact, they share profits and losses in the proportion of A. 47½ per cent., B. 27½ per cent., C. 25 per cent., in addition to specified salaries.

At the end of the year the partnership terminates with a loss of \$10,000, which includes the salaries drawn by the partners. It appears that C. had drawn against prospective profits to the amount of \$5,000, and thereby impaired his capital investment by said amount. They discontinue business and proceed to liquidate and distribute the surplus assets monthly as realized. C. engages in other business, leaving A. and B. to attend to the realization and liquidation of the firm's affairs. A. and B. jointly are to charge C. 5 per cent, for collecting and paying to him his share in the surplus assets.

The amounts collected monthly, less liabilities liquidated and expenses and losses on realization (exclusive of the 5 per cent, collection charged to C., the amount of which is to be equally divided between A. and B.), are as follows:

First month	\$20,250,50
Second month	\$30,490,75
Third month	\$60,890,25



Fourth month	\$58,725,10
Fifth month	\$6,717,68
Last month	\$4,425,72
	\$181,500,50

Prepare partners' accounts showing the amounts payable monthly to each without prejudice to the rights or individual interests of the others.

5. On January 15, 1896, A. of New York sent to B. of London, account sales showing net proceeds due February 15th, 1896, \$17,550, and remitted 60-day sight exchange at \$4.82 for balance of account.

A had, on November 15, 1895, invested \$5,000 in a demand draft, exchange at \$4.85, which he remitted to B., and on December 15th, 1895, he had further remitted to B. a 80-day date draft for £1,759 16s. 8d., exchange at \$4.83, drawn on C. of London, who owed A. \$9,000.00 on open account. Interest to be calculated at 6 per cent. (360-day basis), London date 12 days subsequent to New York date.

Prepare account current as rendered by A. to B.; also, the accounts of B. and C. as they appear in A/s Ledger.

6. A., B., and C. agree to purchase and sell coffee for their joint account. They purchase 3,000 bags of coffee for \$58,500, and one month thereafter sell the same at 16 cents per pound (say 130 pounds to the bag). The warehouse charges, labour, cartage, weighing, brokerage, etc., amount to \$600.

- A. Contributes cash \$20,000.00.  
 B. Contributes note at 4 months \$19,000.00 discount at 6 per cent on same?  
 C. Contributes cash \$18,900.00 and a note at 3 months 2,500.00 discount at 6 per cent on same?

Total \$59,982.50

It was arranged that each should contribute equally to the requisite purchase money, in default of which interest at 6 per cent, per annum for the month covering the transaction was to be calculated between them, to equalize their respective contributions.

Prepare an account of the venture; also, separate accounts of A., B., C., showing the share of each in the final net proceeds.

### Auditing

Wednesday, Dec. 16th, 1896-9:15 A.M. to 12:15 P.M., only.

One hundred credits; necessary to pass, seventy-five.

Answer questions 1, 8, 10, 14, 15, and five of the others, but no more. If more than five of these other questions are answered only the first five of these answers will be considered. Each complete answer will receive ten credits. Do not repeat questions, but write answers only, designating by number as in question paper. Check the number ( $\sqrt{\quad}$ ) of each one of the questions you have answered. Use one side of sheet only.

1. Give a brief outline of the duties of an auditor, and of his responsibilities.
2. Explain the principal points to which an auditor should direct his attention in conducting the audit of the accounts of an incorporated company.
3. If the actual cash on hand at the date of the Balance Sheet had not been verified by the auditor on the day of balancing, what method should be employed to prove its correctness before signing the accounts?
4. In an audit where an exhaustive detailed examination of the books is not stipulated, or not practicable, what examination is essential to insure their general correctness?
5. What means should be employed to detect the willful omission to enter in the books under audit, sales made or cash received?
6. State what should be required of a company or firm by one who is to make an audit of its books?
7. What evidence should be required as to the correctness of values of assets (other than customers' accounts) entered in the books?
8. State what is necessary in auditing cash payments, and how to prevent the reproduction and passing of vouchers a second time.
9. State what examination should be made of the receivable Book Accounts of a firm or company to ascertain what accounts, if any, should be written off as bad.
10. How may it be determined whether certain expenditures of a manufacturing business were of the nature of maintenance and repairs or constitutes an actual betterment of the plant? State how in each case they should be dealt with in the Balance Sheet and in the Profit and Loss Account.
11. In auditing the accounts of a business for the first time what books should be produced? What would be the first duty of the auditor respecting these books?
12. In auditing the accounts at the conclusion of the first fiscal year of a corporation formed to acquire an established business, what documents and records should be examined in addition to the ordinary books and subjects of an audit?
13. To what extent should an auditor hold himself responsible for the correctness of (a) inventories, (b) pay-rolls, (c) depreciation and discounts?
14. In an audit stipulating for the examination of all vouchers of every description, what would be proper vouchers for the following: purchases, returned purchases, sales, returned sales, cash receipts, cash payments, journal entries?
15. On what basis should the following assets be valued in the preparation of a Balance Sheet: (a) manufactured goods, (b) partially manufactured goods, (c) raw material, (d) open Book Accounts receivable, (e) stocks, bonds, and other investments, (f) bills receivable?

↑ Source: *History of public accounting in the United States*. James Don Edwards. 1960 and 2021. Appendix A.

# Annex V

## Relevant historical facts in the United States of America in the period under analysis

Below, we detail the life environment and circumstances that we consider most relevant for readers to understand what the United States of America was like in the period we are analyzing.

Year	Historical Fact
1861-1865	American Civil War, a direct consequence of the historical slavery controversy.
1861	<p>The northern states, called Union or Unionist states, imposed an income tax during the Civil War as a means of financing. A 3% percentage was to be paid to the Bureau of Internal Revenues on annual income over \$800.</p> <p>The great majority of Union workers received an annual salary of \$600, so they were exempted from paying this tax. The Internal Revenue Act of 1862 reduced the previous amount to \$600, in order to try to collect a higher amount of this tax, applying a 3% rate to incomes between \$600 and \$10,000 and a 5% rate for incomes over \$10,000. As an example, the salary of President Abraham Lincoln, who in the year 1863 amounted to \$25,000, in addition to having an additional income of \$1,183, paid an income tax of \$1,297 (Lodge, Arthur. 1988, p. 124).</p> <p>Some authors argue that the application of such a tax system in the Unionist States was one of the determining factors in winning the Civil War, given that the Confederate States of the South had a very rudimentary fiscal and monetary system, which caused them rampant inflation and, therefore, the existence of a paper currency not supported by anything.</p>
1865-1877	Period of reconstruction of the country after the civil war.
1867	<p>Creation in New York of the central railroad system as a vital communications hub. This system was a complete success. Grand Central Station in New York City, with its high ceilings, grand lobby and marble staircase, has been a major communication center of the country since 1871.</p> <p>It was from this year onwards when the madness of building a multitude of new railway lines began, the financing of which was obtained mainly from European investors, mainly British, German and Dutch. All of this was bound to end badly, and it did in 1894.</p>
1868	The 14th Amendment to the U.S. Constitution established civil rights for slaves already freed as a result of the American Civil War. In addition, it allowed for the regulation of businesses at the interstate level - which was obviously the important one - to be carried out at the federal level and not at the state level.
1869	Connection of the East with the American West through the transcontinental railroad, facilitating the movement of people and goods at a much lower cost than at that time and with considerable time savings.
1870	Creation of the Standard Oil Co. Inc. in Cleveland (Ohio), whose majority shareholder and president was John Davison Rockefeller - considered one of the country's "great robber barons" -, which eventually became the largest oil refining company in the world. Rockefeller's predatory and aggressive policy, consisting of buying or destroying his competitors' companies using unorthodox methods, left him practically the only company in the market, with no competition.

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Rockefeller, who was a born entrepreneur and a man with a great vision of the future, reached several agreements with several railroad companies in order to obtain low rates for the transportation of his products, guaranteeing them, in exchange, transportation volumes that were not within the reach of the rest of the oil companies. In 1878, Standard Oil already controlled 90% of the oil refining companies in the United States of America.

Due to the fact that the U.S. government was already beginning to worry about free competition in the market, Rockefeller and his partners created the figure of the trust to prevent them from interfering in their business, a figure that was later copied by many other groups of companies. Thus, in 1882, the Standard Oil Trust was created, also in Cleveland, but in 1885 it moved its headquarters to New York, being this parent company -the dominant company, as it is currently called-, the one that centralized all the decisions of the group. In 1892, legal problems began for the Standard Oil Trust when it was officially decreed that it was an illegal monopoly, but it resisted for a few more years and quietly continued its operations thanks to the *laissez faire* policy of successive American governments, which did not want to eliminate the trust because everyone recognized that its oil prices were the lowest on the market. Therefore, illegal monopoly, yes, but very low oil prices.

Years later, specifically in 1909, the U.S. Department of Justice filed a lawsuit against Standard Oil accusing it of practicing a monopoly that harmed free competition, based on the Sherman Antitrust Act of 1890. Finally, the U.S. Supreme Court ruled to break up Standard Oil into 34 independent companies. Today's well-known U.S. oil companies such as Exxon, Mobil and Chevron, among others, are the result of the court-ordered breakup of the trust. The dissolution of Standard Oil implied that the Rockefeller family and other shareholders received shares in all the fragmented companies in proportion to the shareholding they held, a fact which, in the future, generated very high profits for them.

Rockefeller, who had amassed an enormous fortune, also dedicated himself to philanthropy, founding, among others, the Private University of Chicago in 1890, with a contribution of 80 million dollars - former U.S. President Barack Obama was a professor and chair of this university for 12 years - and it is currently rated, based on certain parameters, as one of the 10 best universities in the world. In 1913, he founded the Rockefeller Foundation and his successors founded, in 1965, Rockefeller University in New York, which came from the Rockefeller Institute for Medical Research, created in 1901. In the USA, philanthropy by great magnates is a factor of great interest that does not occur to the same extent in European countries.

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1870 The New York newspaper The New York Sun published the Credit Mobilier de America scandal, which involved several members of the administration of President Ulysses S. Grant, as well as several members of Congress.

This scandal related the fraud perpetrated by *Crédit Mobilier de America*, a shell company hired as the constructor of the eastern part of the first transcontinental line to be built by the Union Pacific Railroad (2,820 km), founded by Congress, inflating the costs of such construction by 44 million dollars, which were distributed among the shareholders of the latter. In order to cover up this corruption, they gave money and sold shares in the company at a significant discount to various officials of the American public administration so that they would enact laws favorable to their interests and look the other way in reference to all the issues of this company.

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1873 This year, a great crisis took place in the USA caused by the bankruptcy of the banking entity Jay Cooke and Company, located in the city of Philadelphia. Its origin was due to the fact that this entity managed the sale of the bonds of the railroad company in charge of building the second transcontinental railroad in the USA and sold very few bonds because investors did not see the investment as a clear investment.

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	<p>In the end, the bank had to keep a 75% stake in the company, which was totally unaffordable for the bank. When depositors learned of this news, they quickly withdrew their money from the bank and it failed. As a consequence of this crisis, thousands of companies closed their doors and more than 3 million workers became unemployed. The effect of this economic crisis lasted until 1879 and the railway line was not completed until 1883.</p> <p>Some historians consider this crisis to be the first major depression or systemic crisis of capitalism.</p>
1873	<p>The British firm Price, Waterhouse &amp; Co. performed its first work in the U.S.: "Edwin Waterhouse had a client the Whitwell Iron Works, Stockton, England; when Thomas Whitwell invested in the iron business in Tennessee, Price, Waterhouse, London, handled the U.S audits (Wilkins, Mira. 1989, p. 536).</p>
1873	<p>Founding of the American firm of public accountants Veysey &amp; Fabian Accountants in New York City. Its two partners, William Henry Veysey (British) and Robert Lethbridge Fabian (also British) had emigrated to the United States and settled there, but did not have a firm of public accountants in Great Britain.</p> <p>William Henry Veysey began his professional activity as a public accountant in New York in 1866 as a sole practitioner, making him one of the pioneers of this activity after the end of the Civil War. Fabian was the first president of the American Association of Public Accountants (AAPA in 1886-1887) (see Annex I).</p>
1876	<p>The first governmental accounting regulations were related to the railroad companies which, in those days, were of capital importance and constituted, along with other sectors, the epicenter of capitalism in the United States of America. They were the rules for preparing railroad accounts published by The Railway Commissioners of Massachusetts (Brundage, Percival F. 1950, p. 384).</p>
1876	<p>Founding of the American firm of public accountants J. Yalden &amp; Co. in New York. Like William Henry Veysey and Robert Lethbridge Fabian, James Yalden had also emigrated to the U.S., but did not have a firm of public accountants in Great Britain. Yalden (British) was the second president of the AAPA (see Annex I).</p>
1870 1880 1890	<p>During these decades, the lack of accounting information, the existence of few accounting books on the market, and the secrecy of the information favored manipulations, abuses and frauds were the order of the day. There was still no regulation in the business world to prevent them, so company directors believed that they were not responsible for providing accounting information to their shareholders.</p> <p>Note, for example, that until 1899, the New York Stock Exchange did not require listed companies to submit financial statements on a regular basis (Gary John Previts and Barbara Dubis Merino. 1979, p. 89).</p>
1882	<p>Creation in New York City of The Institute of Accountants and Bookkeepers, whose name was changed in 1886 to the Institute of Accounts, by which it is known.</p>
1882	<p>Creation of the Standard Oil Trust, which allowed the vertical integration of the operations of its entire group of companies with the absolute control of the parent company, which had control of all its subsidiaries, thus initiating the era of these business conglomerates that were to give great power to the people who managed them.</p> <p>The creation of the <i>trusts</i> or conglomerates of companies was possible due to the energetic and dynamic character of certain businessmen who knew how to take advantage of the circumstances of the moment in the USA.</p>

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Let us highlight among them John Pierpoint Morgan, in banking and finance, especially, with the large number of corporate mergers he helped bring about (Morgan bequeathed most of his splendid art collection to the Metropolitan Museum of Art in New York City); Andrew Carnegie, with iron and steel (his legacy was the construction of 2,509 free public libraries in the U.S. to help people get an education and, of course, Carnegie Hall, the famous New York concert hall, said to have extraordinary acoustics, which opened in 1891); Cornelius Vanderbilt, who began his early fortune in the shipping industry but ended up in railroad companies (creation of Vanderbilt University in Nashville, Tennessee in 1873); John Davison Rockefeller, in oil and, evidently, also many others who, with their aggressive entrepreneurial spirit, paved the way for the creation of large employment-generating companies which, over time - not in those days, in the absence of a tax system like the present one - contributed large sums of money to the American public treasury in the form of taxes.

It should be recalled that the first corporation income tax was enacted by the US Congress in 1909. It required the payment of 1% of net profit, but its wording was so poorly drafted that its application - even with such a small percentage - entailed great difficulties, given that the deductible expenses should be those actually paid and not those accounted for. In order to solve these problems, they had to issue several orders taking back what had been said earlier.

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1883      Incorporation in New York City of the American *public accounting* firm Barrow, Wade, Guthrie & Company, a subsidiary of the British *chartered accounting* firm Thomas, Wade, Guthrie & Co. located in Manchester. We understand that it was the first *public accounting* firm created in the U.S. by a British *chartered accounting* firm.

Barrow, Wade, Guthrie & Co. merged in 1950 with the American company Peat, Marwick, Mitchell & Co.

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1886      The Statue of Liberty was erected on Liberty Island, south of Manhattan Island, next to the mouth of the Hudson River, at the entrance to New York Harbor. It was a gift from the French people to the American people to commemorate the centenary of the U.S. Declaration of Independence and as a sign of friendship between the two nations. In 1924 it was declared a national monument and, in 1984, considered a World Heritage Site by UNESCO. Some say that the statue was intended to recall the Colossus of Rhodes, one of the great wonders of antiquity.

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1886      Creation of the American Association of Public Accountants (AAPA) in New York City, predecessor of the current American Institute of Certified Public Accountants (AICPA). As a curious fact, the main instigator of its foundation was Edwin Guthrie (British), partner of the British firm of chartered accountants Thomas, Wade, Guthrie & Co. located in Manchester, and also of the North American firm of public accountants Barrow, Wade, Guthrie & Co.

The two *chartered accountants'* partners of the British firm, Charles Henry Wade and Edwin Guthrie were two of the signatories of the application for a Royal Charter for the creation of the Institute of Chartered Accountants in England and Wales (ICAEW), representing *public accountants* in the city of Manchester (see Appendix II).

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1886      The American Cotton Oil Trust prepared consolidated financial statements for the first time in the USA (Gary John Previts and Barbara Dubis Merino. 1979, p. 85). Other authors state that the first consolidated financial statements in the USA were formulated by The American Smelting and Refining Company in 1889 (Parker, Robert H. 2014, p. 129). Years later it was done by The Union Pacific Railroad Company in 1900 and, later, by the United States Steel Corporation, the largest trust in the U.S. in those days - in 1902.

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In anticipation of what we will discuss in a future book, it is extremely curious that the United States Steel Corporation the first consolidated financial statements in 1902 under pressure from Arthur Lowes Dickinson, senior partner of Price, Waterhouse & Co. in America, the auditing firm of that trust, against the recommendations of its lawyers, who stated that the only thing that should be audited were the financial statements of the dominant company and nothing else. Arthur Lowes Dickinson was British and, evidently, a chartered accountant. The consolidated financial statements of this trust became a model for many others and its corporate annual report a real marvel at the time for the wealth of valuable information it provided. "Prior to 1925, no single U.S. Steel annual reported consisted of less than fifty pages, and in 1939, the leanest year of all, the report had twenty-eight pages" (Claire, Richard S. 1945, p.40).

As far as we know, the USA was the first country in the world where consolidated financial statements were prepared. This is because large corporate groups developed very quickly in the USA, before many other countries. For example, for the sake of comparison, in Great Britain the first corporate group to prepare consolidated financial statements was Nobel Industries Ltd. -one of the predecessors of Imperial Chemical Industries - which did so in 1922 voluntarily, not by legal imposition.

The legal obligation to prepare consolidated financial statements in Great Britain came much later, specifically in 1948, through the Companies Act 1948, which, in addition to making it compulsory to prepare them for groups of companies, also increased the level of information to be supplied by companies and made it compulsory to audit the profit and loss accounts, since up to that time the law only required the balance sheet to be audited.

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1886 Founding in Columbus (Ohio) of the American Federation of Labor. It was one of the first federations of unions in the U.S. Its objective was not political, but labor, pursuing shorter daily working hours, higher wages and better working conditions for employees.

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1886 Year in which the transition from an agrarian economy to an industrial economy in the U.S.A. began in a relevant way, which was to provide a very significant increase in wealth throughout the country and a change in its way of life.

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1887 The American Association of Public Accountants (AAPA) registered its certificate of incorporation in New York State on 20 September this year.

The creation of the AAPA did not represent, due to the small initial number of its members and the absence of a law regulating the profession of public accountant in the USA, any significant change, although it did constitute the first professional organization grouping together the then so-called public accountants. It should also be noted that the lack or non-existence of extensive technical literature on both accounting and auditing did not exactly help the development and positive evolution of this new profession. It took many years for this profession to reach cruising speed and be accepted and trusted by American society, a fact that was diametrically different from that of Great Britain, since in the latter country the corporation laws gave a definitive boost to this profession, a fact that did not occur in the USA.

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1887 Creation of the Interstate Commerce Commission by the Interstate Commerce Act of 1887. It was the first independent regulatory agency - some say that regulatory agencies represent the fourth branch within the States - in the USA.

In its beginnings its objective was to regulate railroad companies, being its scope extended, later, to truck transportation companies, interstate bus lines and also telephone companies, in order to ensure fair prices for consumers, sanctioning those companies that created bad practices contrary to what was established in the law.

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1887	<p>A new depression took place in the U.S.A. As a consequence, many British, Dutch and German investors decided to withdraw their money from this country, especially from the railroad companies, at a very low price, causing the new American shareholders to become their owners at a price they could never have imagined. It is estimated that these foreign investors lost approximately 250 million dollars as a result of the sale of their shares in the railroad companies, a very significant amount at that time.</p>
1888	<p>The first golf club in the U.S. was established in New York City.</p>
1888	<p>In this year, British investors decided to invest in North American brewing companies, seeking to obtain a good return and, later, capital gains, in the event of divestment. Before acquiring them, they sent their chartered accountants to audit and control the accounts of these companies. But this had a high cost, given that, in addition to the fees of these professionals, the expenses incurred in these trips (ships, hotels, meals, etc.) had to be included, so that, as the professional work increased, some British <i>chartered accountant</i> companies decided to open branches of these companies in that country to attend to this work at a lower cost, in addition to trying to attract new work from the North American companies.</p> <p>The British firms of <i>chartered accountants</i> that opened agencies or branches in the U.S.A. for the performance of such audit engagements were the following:</p> <ul style="list-style-type: none"> <li>- Price, Waterhouse &amp; Co. in New York (1890).</li> <li>- Deloitte, Dever, Griffiths &amp; Co. in New York (1890).</li> <li>- Broads, Patterson &amp; Co. in Chicago (1894).</li> </ul> <p>- Investment in North American brewing companies in that year represented, in our opinion, the definitive landing of the British <i>chartered accountants</i> in the U.S.</p>
1869-1890	<p>Very significant increase in workers' wages in the U.S. which, combined with a decrease in the prices of many products as a result of improved communications, facilitated an increase in their purchasing power and standard of living.</p>
1889	<p>The Wall Street Journal began publication.</p>
1889	<p>Creation of the American firm of public accountants Heins &amp; Whelen in Philadelphia. John Heins (American) had started his sole practice as a <i>public accountant</i> in earlier years. In later years, William M. Lybrand, the brothers Adam Averell Ross and T. Edward Ross and Robert H. Montgomery worked in this firm, all of whom were partners. John Heins was vice president and later president of the American Association of Public Accountants (AAPA) (see Annex I).</p> <p>James T. Anyon, in his famous "Recollections...", which we have already quoted above, expressed his opinion about John Heins with the following words "The that first of these I think was John Heins, of Philadelphia, a man who was by natural instinct an accountant, reliable, intense and a gentleman". Anyon's opinion perfectly sentences the personality and professionalism of John Heins.</p> <p>On January 1, 1898, the four <i>public accountant</i> friends described above became independent of that firm, creating the American society of <i>public accountants</i> Lybrand, Ross Bros &amp; Montgomery, in the same city of Philadelphia.</p> <p>In later years, this American firm merged with the British firm of <i>chartered accountants</i> Cooper Brothers, and later with Price Waterhouse &amp; Co., now PricewaterhouseCoopers (see Chart 17).</p>
1890	<p>Enactment of the Sherman Antitrust Act, aimed at eliminating business monopolies and restricting abuses against unhealthy competition, although, during the first years, its incidence was practically null due to the totally liberal policy of the different American governments, which sought not to interfere in the business world, giving entrepreneurs great freedom to create wealth in the country, considering that this was their purpose.</p>
1890	<p>In New York, telephones were already working in many businesses.</p>



1890	Price, Waterhouse & Co. opened an office in New York City, although it operated as an agency of the British Society of Chartered Accountants. Deloitte, Dever, Griffiths & Co. also opened an office in New York.
1890	The American public accounting firm Barrow, Wade, Guthrie & Co. bought its first typewriter (Reckitt, Ernest. 1953).
1891	Let us simply recall the situation in Chicago in this year: "In 1891 we had no electricity, either for lighting our homes or for other domestic purposes, no motor cars, trucks or tractors, and, of course, no airplanes. Moving pictures, radios and marconigrams were yet to be discovered. What a difference from today when the pictures in our newspapers of the scenes of the day from all around the world!... The telephone and typewriter were in their infancy. Auditors' reports prior to 1892 were usually written in longhand, so that the handwriting was a necessary accomplishment" (Ernest Reckitt. 1953, p. 228).
1892	Lockout and workers' rebellion at the Homestead steel mill, which was part of the Carnegie Steel Company in the state of Pennsylvania. The strike called by the by the American union, the Amalgamated Association of Iron and Steel Workers, resulted in several deaths and injuries, and, given the turn it was taking, the governor of the state finally sent the 18th Pennsylvania Infantry Regiment to resolve the issue. In the end, there was a significant cut in workers' wages.
1892	The eight-hour workday was decreed, only for employees of the Federal Administration. On the other hand, in industry, the great majority of employees worked 10 or more hours a day, receiving a regular salary of \$600 a year.
1892	Obtained a certificate or provisional authorization from the Board of Regents of the State University of New York for the creation of the New York School of Accounts, whose teachings lasted two academic years. It only functioned during the academic year 1893-1894, due to the lack of students, a situation derived mainly from the economic crisis of the country, which began in May 1893.
1893	Panic of 1893. Its causes are varied but it lasted until 1897. The depression caused, among many other effects, the bankruptcy of a quarter of the railroad companies, the closing of thousands of businesses, the failure of 500 banks, the reduction of wheat sales prices, the unemployment of a significant percentage of the U.S. labor force, and the appearance of soup kitchens to prevent people from dying of starvation.
1893	In this year the Chicago World's Fair was held in the city of Chicago.
1893	The only bridge over the rivers was the Brooklyn Bridge. The rest of the bridges we know today and the subway in New York City had not yet been built.
1893	Steam trains were the only trains in existence. In New York City, elevated tracks continued to run on several avenues, but most of the traffic was carried on its streets by horse-drawn carriages. Taxis, of course, did not yet exist. In the suburban areas of the city, given the distance from the city centre, it was common to travel by bicycle, even using two-person bicycles.
1893	The firm Price, Waterhouse & Co. purchased its first typewriter in its New York office, "to prepare letters, reports and accounts with carbon copies" (DeMond, C. W. 1951, p. 17).
1894	The Pullman Strike was a nationwide railroad strike. It pitted the Pullman Company (Chicago) car or railroad car manufacturing company against the American Railway Union (ARU) in protest and response to reduced wages. 30 people died in riots in many cities in the United States of America.
1894	An income tax was re-created that was intended to replace tariffs. It was later declared unconstitutional on the grounds that it imposed taxes that were not proportional to the distribution of population among the States. Nearly 20 years had to pass before an amendment was made to the Constitution to correct this problem and enact a new tax.
1894	Creation of the American firm of public accountants Stuart & Young, in the city of Chicago, today Ernst & Young (EY) (see chart 18).

1894	The Interstate Commerce Commission published instructions entitled "Classification of Operating Expenses", especially for railroad companies, but not exclusively for them.
1894	A quarter of the railroad companies went bankrupt, but some of them were reorganized. The investment bank Morgan was in charge of trying to financially refloat the bankrupt railroad companies. It succeeded in converting the financial creditors into shareholders and, in this way, the debt of these companies was considerably reduced and those creditors who did not want to convert their debt into shares were pressured to do so and, if they failed to do so, they were punished with the payment of much lower interest than that which had been agreed at the time of providing their financing to the companies. These operations were called "reorganization of the railway companies".
1895	The telephone was installed in the city of Chicago.
1895	Founding of the American <i>public accounting</i> firm Haskins & Sells in New York City, now Deloitte (see chart 15).
1895	Attempt to enact a law in New York State to regulate the profession of <i>public accountant</i> , which failed.
1896	As a result of the panic of 1893, which many blamed on Democratic President Grover Cleveland for not knowing how to manage it properly, the Democratic Party suffered huge losses in the 1894 elections. In 1896 they lost the elections for good and did not win again until 1910. He was not only blamed for not knowing how to manage the country's economy, but also for the number of deaths in the Pullman Company strike.
1896	A law was passed in April to regulate the profession of public accountant in the State of New York. According to this law, the certificate that qualified a person as a public accountant was called Certified Public Accountant (CPA).
1896	On October 15, 1896, the Board of Regents of the State University of New York appointed Charles Waldo Haskins, Frank Broaker and Charles Ezra Sprague as members of the Board of Examiners, responsible for accepting or rejecting candidates for the <i>Certified Public Accountants</i> (CPA) certificate.  All <i>public accountants</i> who were willing and qualified could apply to be exempted from the CPA examination ( <i>waiver provision</i> ) on the basis of years of previous experience and proof of good moral character, and these applications were gradually resolved. The first examination for the CPA certificate was held on December 15 and 16, 1896, in the cities of New York and Buffalo, and only five candidates took the exam. Three of them passed all the tests and two of them fell by the wayside (the text of the exam can be found in Annex IV).  As we will explain in a future book, the first woman in the U.S. to obtain the <i>Certified Public Accountant</i> (CPA) certificate was Christine Ross (CPA No. 143 for the State of New York), who obtained it on December 27, 1899, at the age of 26. It is curious that the first British woman to obtain the title of <i>chartered accountant</i> was Mary Harris Smith, after a great deal of effort, in May 1920, that is, 21 years after the American woman, when in Great Britain the professional organization of <i>chartered accountants</i> -both in Scotland and in England and Wales-, was prior to that of <i>public accountants</i> in the USA.

↑ Source: Miscellaneous documents.

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